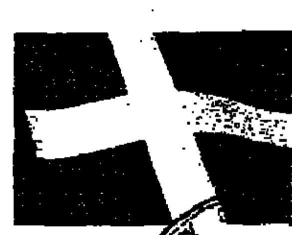
German coalition
Papering over the cracks
Page 16

Media moguls
Saudis embrace the computer age
Page 6

Green accounts
Why companies refuse to report
Environment, Page 16



Today's surveys
Derivatives
Denmark
Separate sections

FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY NOVEMBER 16 1994 D8523A

Volvo profits soar as strong sales boost recovery

Swedish vehicle maker Volvo reported a jump in nine-month pre-tax profits to SKr12.7bn ($1.7bn) compared with SKr1.06bn a year earlier. Sales up from SKr73.5bn to SKr112.2bn and big capital gains consolidated the company's dramatic recovery from recession. Page 21

Irish government's future in balance: Ireland's parliament postponed a vote of no confidence in prime minister Albert Reynolds, leaving the fate of his coalition government in the balance. Page 20

Court clears way for trade deal: The European Court of Justice ruled on a dispute between the Commission and member states, clearing the way for the EU to ratify the Uruguay Round trade deal before the year-end deadline. Page 5; Editorial Comment, Page 19

Euro stock market plan announced: Plans for a pan-European stock market were unveiled by a group of European venture capitalists, the Paris Bourse and the US Nasdaq market. The new market would give fast-growing companies access to equity finance at an earlier stage than national exchanges currently allow. Page 3; Lex, Page 20

Lauda finally cleared for take-off to Paris:

France responded to strong pressure for access to Orly airport in southern Paris by saying it would bring forward the date on which it will grant landing rights. The transport ministry said carriers from EU states would be allowed to launch services from next January rather than having to wait until spring. Meanwhile Nikki Lauda (above), founder and chairman of Lauda Air, finally won permission to pilot his airline's first services to Paris. Allowed to land at Charles de Gaulle airport, he is pressing for rapid access to Orly. Page 20

Apec aims for free trade zone: The Asia-Pacific Economic Co-operation summit agreed to create the world's largest free trade zone by 2020. Page 5; Editorial Comment, Page 19

Tokyo eases listing rules: The Tokyo stock exchange is to ease its share-listing rules in a move aimed at reviving the market's faded attraction for foreign companies. Page 21

Nato to keep embargo: Nato formally agreed it would maintain the arms embargo on Bosnia in spite of Washington's withdrawal from the operation. The alliance's military committee said the US move would have little real effect. Page 20

Ciba-Geigy, Swiss chemical and drug company, confirmed it is negotiating to acquire a "significant" minority stake in US biotechnology company Chiron. The deal would include the transfer to Chiron of Ciba assets worth around $1bn. Page 21

Boots in big buy-back: UK retailer Boots spent £508m ($833m) – 60 per cent of what it hopes to receive from the sale of its prescription drugs business – on buying back its shares. The moves leave Boots' management free to focus on acquisitions in non-prescription drugs. Page 22

Arafat attacks donors: PLO chairman Yassir Arafat criticised what he called politically motivated delays in channelling promised funds to Palestinian authorities. "International donors had pledged $2.4bn to support infrastructure and development – $690m a year. Where is that money?", he asked.

Stress study: Work is the major cause of stress, according to a survey of more than 5,000 office workers in 16 countries. More than half the respondents said stress levels at work had risen over the past two years and almost one in five admitted taking time off work because of stress.

Algerian jail break: Eight people were reported killed and 60 injured when Moslem militants on death row led an attempt to break out of a prison in southern Algeria.

Azerbaijan signs deal: Azerbaijan's parliament ratified a $7.4bn contract to develop three Caspian sea oilfields with a foreign consortium. Iran has been offered a share in the project.

Trade surplus falling, says Japan: Japan said its dollar-based trade surplus was heading downwards after seeing the surplus shrink in October for the third month running. The politically sensitive surplus with the US fell 6.8 per cent from a year ago to an unadjusted $4.79bn.

STOCK MARKET INDICES

FT-SE 100:	3,135.4	(+40.1)
Yield	4.08	
FT-SE Eurotrack 100	1,354.70	(+7.07)
FT-SE-A All-Share	1,553.9	(+1.1%)
Nikkei	16,391.68	(+130.23)
New York: lunchtime		
Dow Jones Ind Ave	3,852.27	(+22.54)
S&P Composite	467.81	(+1.77)

US LUNCHTIME RATES

Federal Funds:	$5\frac{5}{8}$%
3-mo Treas Bills: Yld	5.426%
Long Bond	$93\frac{3}{4}$
Yield	8.05%

LONDON MONEY

3-mo Interbank	$6\frac{1}{8}$%	(same)
Liffe long gilt future:	Dec 102$\frac{1}{32}$	(Dec 101$\frac{9}{32}$)

NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$16.62	(16.83)

Gold

New York Comex (Dec)	$387.3	(385.3)
London	$386.95	(385.2)

STERLING

New York lunchtime:		
$	1.5835	
London:		
$	1.5826	(1.5849)
DM	2.4456	(2.4491)
FFr	8.4839	(8.4242)
SFr	2.0566	(2.0575)
Y	155.446	(155.994)
£ Index	80.1	(80.2)

DOLLAR

New York lunchtime:		
DM	1.54545	
FFr	5.30825	
SFr	1.2995	
Y	98.255	
London:		
DM	1.5454	(1.5453)
FFr	5.3104	(5.3153)
SFr	1.2995	(1.2982)
Y	98.225	(98.425)
$ Index	62.2	(same)

Tokyo close Y 98.17

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lev60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.80	Norway	NKr17.00	Spain	Pta225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Estonia	EKr20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00		
Finland	FM14	Kuwait	Fils625	Poland	Zl 38,000	Tunisia	Din1.500		
France	FFr9.50	Lebanon	US$1.50	Portugal (mland)	Esc225	Turkey	L30000		
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00		

Commission officials dismiss Court of Auditors report as ill-informed

EU attacked on spread of fraud

By Lionel Barber in Strasbourg, David Gardner in Brussels and Kevin Brown in London

The European Union's Court of Auditors yesterday criticised the European Commission for lax financial management and a failure to tackle fraud, which it said had become endemic inside the EU.

Commission officials called part of the court's 484-page report ill-informed, but Eurosceptic Conservative MPs in the UK claimed it would stiffen opposition to legislation increasing British contributions to the EU, which will be announced at the opening of parliament today.

Mr André Middelhoek, court president, said in Strasbourg that it was impossible to estimate how much money went astray from the Ecu64.2bn ($79bn) of EU funds paid out in 1993. "Fraud exists everywhere. There's no question of it just being something that happens in one country as opposed to another," he said.

But the court's strictures on EU aid to east and central Europe, and the former Soviet republics – worth Ecu1.1bn and Ecu530m respectively last year – were dismissed as "misleading, inaccurate, or by now outdated" by officials working with Sir Leon Brittan, the commissioner responsible for the programmes.

They "reflect an insufficient understanding of how the programmes work or the specific circumstances on the ground", one official said, describing some of the allegations as "completely false".

The court, for instance, says that EU food aid going to the Baltic states undercut the local food prices, then driving an embryonic private sector out of business. Sir Leon's officials say that food prices were already well below world levels, and that the Commission and Baltic governments therefore set higher minimum prices to prevent the former state-owned enterprises from undercutting private traders.

Price cushion to end ....Page 2
Rebel Tory MPs seize on EU fraud report ....Page 8

The report identifies several serious cases of fraud, mismanagement or incompetence in the EU.

- Wine production has risen by one-fifth since 1989 despite EU spending totalling Ecu1.2bn to take vineyards out of production.
- The European Parliament failed to enforce competitive tenders for its new building in Brussels. The cost has risen from original estimates of about Ecu1bn to Ecu1.83bn.
- EU payments to persuade milk and wine producers to cut production are still being offset by political incentives to increase output.

The report's appearance coincides with a planned Ecu600m increase in the EU budget in 1995, which could face opposition in some member states, notably the UK.

Mr Bill Cash, a leading rightwing Eurosceptic, seized on the report as evidence that British taxpayers were contributing to a "bottomless, fraudulent pit".

Other rightwingers forecast a rebellion against the bill.

But British ministers praised the Court of Auditors for identifying the fraud. They played down the prospects of a backbench rebellion. Mr Kenneth Clarke, chancellor, dismissed the rebels as "obscure backbenchers who have a complete bee in their bonnet about Europe".

Mr Douglas Hurd, UK foreign secretary, called for the European Parliament to play a bigger role in monitoring the European Commission and EU spending.

US raises short-term interest rates by a ¾ point

By George Graham in Washington and Patrick Harverson in New York

The US Federal Reserve raised short-term interest rates by a larger-than-expected ¾ of a percentage point yesterday in an effort to keep inflation under control in the rapidly growing US economy.

The Federal Open Markets Committee, which decides on the Fed's interest rate policy, said the increase was "necessary to keep inflation contained, and thereby foster sustainable economic growth".

The decision will raise the federal funds rate, which banks charge each other on overnight balances they hold at the Fed, from 4.75 per cent to 5.5 per cent. The discount rate, which the Fed charges banks on borrowings from its emergency discount window, will rise from 4 per cent to 4.75 per cent.

"These measures were taken against the background of evidence of persistent strength in economic activity and high and rising levels of resource utilisation," the FOMC said after its meeting in Washington.

The rate rise – the largest since 1980 – was initially well received on Wall Street, where stocks, bonds and the dollar all rallied within minutes of the central bank's announcement.

The fact that the rate increase was larger than generally expected – most analysts had forecast an increase in short-term rates of ½ a point – pleased investors, who welcomed the Fed's willingness to take the necessary pre-emptive action to restrain future inflation.

The Dow Jones Industrial Average rose 10 points after the rate rise, and by 2.30pm was at 3,850.58, up 20.85 on the day. Soon after, however, stocks slipped back on profit-taking.

The 30-year bond rose half a point, pushing its yield down to below 8 per cent. The dollar appreciated against the yen and the D-Mark, and in early after

Continued on Page 20
Fed sees fast growth, Page 7
Editorial Comment, Page 19
Lex, Page 20

Fears on Russian share security deter investors

By Chrystia Freeland in Moscow

Fears that factory officials may tamper with share registers are emerging as an impediment to foreign investment in Russia.

The head of a leading western fund manager said the custody of shares by factory bosses "is the single largest deterrent to western investment".

She added that big investment banks were keen to expand in Russia but not without "proper settlement and custody of shares". Russia was the worst of the world's emerging markets in terms of offering investors' security for their share purchases.

The sole document that establishes ownership over shares in Russia is the register of shareholders in a particular privatised enterprise. Legally, share registers of companies with more than 1,000 shareholders must be held by independent registrars, but many of Russia's largest companies directly control their own registers.

"It is a totally insecure system," said one western investment banker in Moscow. "It goes without saying that there's a conflict of interest when the factory controls the shareholders' register.

Foreign investors are concerned that the system is being abused by factory directors who might be tempted to rid themselves of unwanted new owners by deleting them from the share register.

Mr David Reuben, president of Transworld, the London-based company which dominates the Russian metals' trade, alleges share tampering took place last week at the Krasnoyarsk Aluminium Smelter, one of the world's largest aluminium producers.

"The 20 per cent stake in the company [which could be worth as much as $300m] owned by our proxies was simply erased from the register," Mr Reuben claims. "The Russian law is a complete disaster. Shareholders are completely at the mercy of the factory managers."

According to Mr Vladimir Lysyn and Mr Sergei Sukholinski-Mestechkin, Mr Reuben's two Moscow business associates, the alleged share tampering became clear last Tuesday, when they travelled to Krasnoyarsk to participate in a shareholders' meeting.

Mr Lysyn says that when he and his colleague arrived at the factory gates they were turned away by armed guards and told their names no longer appeared on the register.

Mr Sergei Petrushin, director of the securities department at the Krasnoyarsk Aluminium Smelter, confirmed that the shares held by Transworld's proxies had been struck from the share register, which is directly controlled by the factory. But he contended that the shares had been improperly purchased in the first place.

"We made a mistake in May by including them in the share register and now we have corrected

Continued on Page 20

Helmut Kohl of Germany receives a bunch of flowers in the German parliament yesterday after he was re-elected chancellor by one vote in a ballot in the lower house. The presentation was made by fellow member of parliament Brigitte Baumeister. Watching is the foreign minister, Klaus Kinkel. Mr Kohl's razor-thin majority is not unprecedented in postwar German politics. In 1949 the Christian Democrat father figure Konrad Adenauer won what was then the minimum 202 votes needed to become Bonn's first chancellor. In 1969, Willy Brandt was only two votes over the minimum and seven years later Helmut Schmidt cleared the hurdle with only one vote to spare after winning the 1976 general election against the challenger, Mr Kohl. Report, Page 2 Picture: Reuter

Whirlpool to cut 3,200 jobs in $150m cost-saving drive

By Richard Tomkins in New York

Whirlpool, the US-based maker of washing machines and other home appliances, yesterday said it planned to eliminate 3,200 jobs in Europe and North America next year – about 8 per cent of its worldwide workforce of 40,000.

It said the job losses were part of a cost-cutting drive that would save $150m a year. In the short term, however, the restructuring will hit earnings: the company said it would result in a pre-tax charge of $240m to fourth-quarter profits this year.

The brunt of the job losses will fall on Whirlpool's European operations, where the existing workforce of 13,000 will be reduced by 2,000. The rest will be in the US and Canada, where the workforce of 23,000 will be cut by 1,200.

Whirlpool, the world's biggest manufacturer of home appliances, said the move was aimed at increasing competitiveness. In Europe, it said, the restructuring was part of a process of integration that had been going on since the company completed the acquisition of the Philips Electronics home appliance business in 1991.

Recently, Whirlpool's financial performance has been strong. In the quarter to September, big increases in sales helped the company produce a 40 per cent increase in net income to $98m. But profitability in Europe has consistently lagged that of the company's US operations.

Like other big manufacturers, Whirlpool has been trying to improve European profitability by reorganising itself on pan-European lines. As part of the process it has already consolidated most functions, including buying, product development, customer service, information technology and some manufacturing.

Yesterday the company said it will extend the approach to sales and marketing and complete the process in other functions. The result would be job losses across all functions and geographic areas. However, no European factories would be closed.

In contrast, the job losses in North America will come mainly from plant closures. Whirlpool said it was closing a plastic components factory in Columbia, South Carolina, with the loss of 500 jobs, and a clothes drier factory in Cambridge, Ontario, with the loss of 400 jobs. The rest would fall on salaried staff in US manufacturing.

Whirlpool said production of the plastic components made in Columbia would be transferred to existing suppliers near Whirlpool's US assembly plants. Clothes drier production at Cambridge would be transferred to the company's Marion, Ohio, plant.

CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Kohl stays chancellor by one vote

By Judy Dempsey and Michael Lindemann in Bonn

Mr Helmut Kohl was yesterday re-elected chancellor of Germany, but with only one vote to spare after three of his own coalition partners voted against him in a secret ballot.

Mr Kohl, 64, who received 338 of the 671 parliamentary votes, just one above the required majority to get elected in the first round, said after his re-election, "I didn't expect all the votes from the coalition. It was the result I had expected," he said.

The opposition Social Democrats, Greens, and reformed east German communist Party of Democratic Socialism, all cast their combined 330 votes against him. There were no abstentions and only one deputy, of the SPD, was absent because he was in hospital.

A smiling Mr Kohl, re-elected chancellor for the fifth successive time, stood to acknowledge the ovation from his own benches after Mrs Rita Süssmuth, speaker of the house, announced the result. Coalition deputies then broke into a rhythmic applause, while the opposition sat stoney-faced.

Mr Rudolf Scharping, leader of the SPD, walked over to congratulate Mr Kohl, while the Chancellor, in an unusual gesture, shook hands with Mr Gregor Gysi, leader of the PDS.

But with a narrow victory, secured by Mr Wolfgang Schäuble, parliamentary leader of Chancellor Kohl's Christian Democratic Union and the Christian Social Union, its Bavarian sister party, who personally made sure every deputy would attend the vote, Mr Scharping warned that the next legislative period would be difficult for Mr Kohl.

"It will be tight now [for Mr Kohl]," he said. "Making difficult political decisions with such a narrow majority will be like walking on a tightrope," he added. He was also referring to the coalition's narrow parliamentary majority. It had a 134 majority in the last parliament cut to just 10 in this one.

But the decision by three (unnamed) members of Mr Kohl's own coalition to vote against the chancellor suggests he will require, and try to impose, strict discipline across party ranks to push through his agenda for the forthcoming legislative period.

Mr Kohl's agenda for the next four years will be spelt out tomorrow when he addresses the Bundestag. The agenda, agreed at the weekend between the CDU, CSU and the Free Democrats, the junior partner in the coalition, and which is called "Making united Germany fit for the future" includes curbing the budget deficit, pressing ahead with privatisation, creating more jobs, slimming the bureaucracy, and social security cutbacks.

At the same time, Mr Kohl will announce the new cabinet, which will be reduced in size. The Free Democrats are expected to retain the foreign and economic ministries, but it is still unclear if Mr Günter Rexrodt will retain the economics portfolio.

The FDP's bargaining position for its share of cabinet posts has been weakened following last month's federal elections when its number of Bundestag seats fell by 32 to 47, although Mr Kohl is more than ever dependent on them given the coalition's slim overall majority.

Yesterday, Mr Werner Hoyer, general secretary of the FDP, announced his resignation, apparently because he is held responsible for the party's election debacle. His resignation will take effect next month when the liberals hold a special party conference to assess the disastrous results as well as a future strategy.

Irish coalition teeters on the brink

John Murray Brown reports from Dublin on how a political marriage turned sour

Ireland woke up wearily yesterday to the realisation that yet another government had been dragged close to the brink of collapse.

The political showdown, which could yet be resolved in parliament today, has nonetheless soured relations between Fianna Fail and its Labour partner.

On this occasion it was triggered by Labour party criticism of the attorney general's mishandling of a child abuse case. The Fianna Fail prime minister, Mr Albert Reynolds, almost certainly misjudged the reaction of his junior coalition partner to his appointment of the attorney general, Mr Harry Whelehan, as president of the High Court.

However, the roots of this particular breakdown go deeper and lie in the unhappy marriage between Fianna Fail, the dominant force in Irish politics since the foundation of the state in the 1920s, and Labour, the small left-of-centre party.

Albert Reynolds (above): fundamental personality difference with coalition partner Dick Spring

From the beef tribunal scandal to the famous X-case involving the attorney general's injunction preventing a 14-year-old rape victim from seeking an abortion in the UK, Labour has looked increasingly uncomfortable.

Even on the key foreign policy issue of Northern Ireland, there were suggestions that Labour was unhappy with Mr Reynolds's insistence on forcing the pace on the peace process.

The government was formed in January 1993, after the 1992 general election prompted by Fianna Fail's falling out with its former partners, the Progressive Democrats.

There have been natural policy differences. On social issues, Labour has had to swallow hard. Despite six cabinet posts against Fianna Fail's nine, it has appeared isolated from the key economic decision-making. A tax amnesty aimed at enticing black earnings into the exchequer, passed last year, was unsuccessfully resisted by Labour. There have been squabbles about how to spend the £7bn Ireland receives from the European Union in farm support and structural and other funds.

But in many dispassionate Irish eyes, the coalition, the first between these two parties, has made considerable legislative progress, passing some 40 bills.

At one level, the Reynolds-Spring team seemed an awkward combination. It was partly a question of generation – Mr Reynolds at 59, is 15 years older than the Labour leader, Mr Dick Spring. Mr Reynolds, despite heading what is in Ireland the establishment party, is unusual in being a self-made man, having amassed a fortune in the pet food business and before that as a showband impresario. Mr Spring, by contrast, entered politics in 1981, taking over the North Kerry seat on the death of his father, a dynastic practice common in the Irish parliament.

But, at a deeper level, there is a fundamental personality difference. Mr Reynolds's can-do approach to policy has often seemed high-handed, and has irritated the prickly and rather solemn Labour leader.

In the current row, for all the high moral talk of "public accountability", there were few illusions in Dublin that the real scalp Mr Spring is seeking is that of Mr Reynolds himself.

They have clashed before: on both occasions Mr Spring gave ground. First, there was the case of the two foreigners who had invested in Mr Reynolds's petfood business who were given citizenship: the so-called "passports-for-sale" scandal.

The final straw was the Beef Tribunal, an investigation into the misuse of official export credits, where Mr Spring again found himself questioning the prime minister's role. With convenient timing, when the Dail (parliament) came to debate the issue, the controversy was overshadowed by the IRA's ceasefire.

In forcing the issue to a head, Mr Spring has clearly calculated that this crisis is sufficient to take to the country, a measure of how the moral climate has changed in Ireland in the past two decades.

The emotive issue of child abuse by a Catholic priest, is seen by the Labour strategists as a natural winner, pitting "secular" Labour against Fianna Fail, traditionally the church's political ally.

Fianna Fail may still command the loyalty of its largely rural-based support: an opinion poll only 10 days put the party streets ahead, with 50 per cent. However, with one of the youngest populations in Europe, and the fastest rates of rural depopulation, this latest crisis could well signal a significant shift in the centre of political gravity in Irish politics.

Like British attitudes to royalty, the Irish have a fascination with the moral mishaps of their priests. As Fianna Fail's popularity at the polls fades, so the church's hold over society has weakened, and the old irredentist myths of a united Ireland have faded.

In a society which holds its rock stars up as examples of excellence, Fianna Fail no longer looks to many younger people like the natural party of government.

It would doubly ironic if, as seemed possible yesterday, President Mary Robinson were now to play a key role in this crisis. It was her election, more than any other recent event which underlined these changes. Her victory as Ireland's first woman president marked Fianna Fail's first ever defeat for its presidential candidate.

EU plans to scrap farm price cushion

By David Gardner in Brussels

One of the European Union's most expensive policies, originally intended to cushion farmers' incomes from currency fluctuations, is to be scrapped under plans Brussels will publish today.

The policy, which is known as "switchover", has cost the EU budget around Ecu6bn (£4.7bn) since it was introduced a decade ago. It has added 21 per cent to European farm prices, according to European Commission officials.

One Brussels official yesterday heralded the near-certain abolition of the scheme as "the death of a great dinosaur".

Only Germany, at whose behest the system was introduced in 1984, opposes ending switchover. But as current president of the EU it is in the invidious position of having to chair next month's meeting of agriculture ministers which should decide on the issue; this obliges Bonn to concentrate on winning consensus rather than allies.

Switchover, part of the EU's complex "green money" system for converting agricultural subsidies into national currencies, realigns farm prices in every EU member state to follow the upward movements of the strongest EU currency, invariably the D-Mark but often the Dutch guilder as well.

Although designed to protect Germany's politically influential farmers, it has become an inflation machine which locks farm price increases permanently into the EU budget, over half of which goes on the Common Agricultural Policy.

The Commission fought to abolish switchover after reform of the CAP in 1992 cut farm prices sharply. But Germany won a two-year extension following that autumn's turmoil in the European exchange rate mechanism currency grid.

But, after the decision in August 1993 to float all currencies within wide bands of the ERM, there have been no formal realignments and Brussels put the scheme in abeyance. Germany argues that, in practice, the "hard" ERM currencies have continued to trade within narrow bands, putting farmers in the countries concerned at a disadvantage against currencies such as the lira, the peseta or sterling, which have "floated" over the past two years.

The Commission is unmoved and holds a strong hand. Moreover, it would be particularly hard for Germany, which complains that it is by far the largest contributor to the EU budget, to produce cogent arguments to retain or extend in time such manifestly indiscriminate compensation.

"The Germans have to recognise that every time the switchover is triggered, they're paying a third of the bill, while their farmers are only getting about a quarter of the take," one Commission official said.

What the Commission now wants is to target compensation on farmers who lose out on sharp currency realignments and pay them directly, rather than by increasing prices. But it may insist this is paid out of national budgets and would be tough on eligibility "in the light of the 20 per cent windfall many farmers have had over the past 10 years" through switchover, one Brussels official said.

Here too, the Commission is in a strong position. Any increase in EU aid which raises farm prices now quickly runs into three formidable and linked obstacles: a tight agriculture budget ceiling; a reformed CAP whose success depends on prices coming down; and EU commitments under the Uruguay Round world trade agreement to slash farm price support.

Hungary risks fury over hotel sell-off

By Virginia Marsh and Anthony Robinson in Budapest

The Hungarian government's credibility with foreign investors was on the line last night as reformers and foreign advisers sought to persuade socialist ministers to complete long running plans to sell the last state-owned hotel chain.

Senior ministers in the socialist-liberal coalition government have been pressing for the state to ignore an international tender for the 15 properties owned by HungarHotels six weeks ago and transfer the assets instead to the cash-strapped state social security fund.

One western banker in Budapest said: "I am shocked. It is one thing for a foreign investor to lose a tender to a competitor. It is another thing altogether to go through with an expensive tendering process only to have the government pull out at the last moment."

Mr Ferenc Bartha, the privatisation commissioner, told an FT investment conference here that he hoped for a "positive" decision at a meeting on the sale today which would allow one of the three shortlisted foreign bidders to continue purchase negotiations. The top contenders for the group, which owns some of the country's prime tourist hotels, are American General Hospitality, a privately-owned US group, and Intercontinental, the Japanese-owned international hotel chain.

Mr Bartha said that the privatisation authorities were "resisting unjustified claims" that in currently depressed market conditions foreign bids were too low and that the assets should be used instead to bolster the social security system's coffers.

The current government inherited from the former conservative administration an obligation to transfer assets totalling $3bn, around 20 per cent of the total value of remaining state-owned assets, to the social security and related funds. The new socialist-led government has promised to honour this commitment. At the same time, however, it is relying on foreign investment and the proceeds from privatisation to cut government debt.

Foreign investment bankers warned last night that cancellation of the HungarHotel deal, planned as one of the biggest privatisation deals this year, would send highly negative signals to potential investors. They point out the government is budgeting for another $2bn in foreign capital inflows to help finance the expected $3bn balance of payments current account deficit next year.

Analysts believe that most of the 15 hotels require substantial investment and a foreign strategic partner to bring them up to modern standards. But senior socialist ministers, influenced by the strong trade union lobby, argue that the government must be seen to be responsive to its electorate's demand for adequate social security provisions if it is to retain political support for the tough 1995 budget. This is slated to cut spending in real terms by more than 8 per cent next year.

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Growth slows in sale of new cars

By Kevin Done, Motor Industry Correspondent

New car sales in west Europe rose by 3.3 per cent in October year-on-year to 916,700, according to provisional figures from Acea, the European Automobile Manufacturers Association. The rate of growth has slowed since the early summer, and last month sales were lower than a year ago in eight of the 17 markets.

In the first 10 months of the year sales rose by 4.9 per cent to 10.18m with higher sales in 11 markets.

The pace of recovery has been slowed by the German market, where October sales are estimated to have fallen by 1 per cent to 250,000. The European market was also hit by a 3 per cent decline in the UK, which had previously played an important role in leading the industry out of recession.

However, there was continuing strong growth in France and Spain, where demand has been stimulated by government incentives. There are signs too that the deep recession in the Italian market may be over. Sales rose by an estimated 6.2 per cent in October against a 6.7 per cent decline in the first 10 months.

Growth has been strongest this year in the Nordic countries. Sales in the 10 months have risen in Denmark by 73.3 per cent year-on-year, Norway (39.5), Sweden (27.5) and Finland (22.7).

Japanese carmakers have lost ground with sales falling by 6.7 per cent in the period. Their share has declined to 11.1 per cent from 12.5 per cent a year ago with their competitiveness under heavy pressure from the strong yen.

The Japanese have only small shares, too, in some of the protected markets such as France and Spain, which have shown strongest growth among the big volume markets.

The PSA Peugeot Citroën group and Renault have benefited most from rising demand in these two markets and have emerged this year as the fastest growing volume carmakers in west Europe.

Peugeot Citroën has increased its sales by 10.1 per cent and has raised its market share to 12.8 per cent from 12.2 per cent a year ago.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-October 1994

	Volume (Units)	Volume Change(%)	Share (%) Jan-Oct' 94	Share (%) Jan-Oct' 93
TOTAL MARKET	10,177,400	+4.9	100.0	100.0
MANUFACTURERS:				
Volkswagen group	1,623,500	+2.9	16.0	16.3
– Volkswagen	1,046,300	+0.3	10.3	10.7
– Audi	265,200	–0.4	2.6	2.7
– Seat	260,400	+16.3	2.6	2.3
– Skoda*	51,700	+15.1	0.5	0.5
General Motors#	1,314,700	+3.6	12.9	13.1
– Opel/Vauxhall	1,255,200	+3.2	12.3	12.5
– Saab**	42,700	+24.7	0.4	0.4
PSA Peugeot Citroen	1,307,500	+10.1	12.8	12.2
– Peugeot	786,500	+9.4	7.7	7.4
– Citroen	521,100	+11.1	5.1	4.8
Ford group#	1,212,800	+6.7	11.9	11.7
– Ford	1,188,300	+6.5	11.7	11.5
– Jaguar	9,100	–3.7	0.1	0.1
Renault	1,105,900	+7.6	10.9	10.6
Fiat group##	1,085,600	+5.3	10.7	10.6
– Fiat	849,300	+9.8	8.3	8.0
– Lancia	138,200	–4.7	1.4	1.5
– Alfa Romeo	85,600	–15.0	0.8	1.0
BMW group	659,100	+5.6	6.5	6.4
– BMW	330,200	+4.1	3.2	3.3
– Rover	329,000	+7.0	3.2	3.2
Mercedes-Benz	368,200	+25.3	3.6	3.0
Nissan	335,300	–3.7	3.3	3.6
Toyota	269,400	–2.8	2.6	2.9
Volvo	171,300	+19.7	1.7	1.5
Mazda	154,500	–9.6	1.5	1.8
Honda	146,600	+5.2	1.4	1.4
Mitsubishi	102,900	–16.4	1.0	1.3
Suzuki	64,800	–21.3	0.6	0.9
Total Japanese	1,130,200	–6.7	11.1	12.5
MARKETS:				
Germany	2,722,500	–0.4	26.8	28.2
United Kingdom	1,710,800	+8.5	16.8	16.3
France	1,607,900	+13.8	15.8	14.6
Italy	1,399,000	–6.7	13.7	15.5
Spain	754,400	+21.8	7.4	6.4

*VW holds 31 per cent and management control of Skoda
#includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati
Source: ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

EUROPEAN NEWS DIGEST

Former premier loses immunity

Ukraine's parliament yesterday revoked the immunity of Mr Yefim Zvyahilsky, the former prime minister accused of embezzling millions of dollars in barely eight months in office, thus opening the door to his prosecution. Detailed charges against Mr Zvyahilsky, who headed the government from October 1993 to last June, centre on allegedly fraudulent business deals, illegal currency trading and skimming off state contracts. The prosecutor, Mr Vladislav Datsyuk, yesterday said the former prime minister, now a deputy, would be charged with theft and grand larceny – activities which, he said, cost Ukraine $25m. Mr Datsyuk claimed the former prime minister was accused of arranging the sale of strategic high-grade aviation fuel to a Greek-registered company at low prices; the state only received $10m of a reportedly $15m contract, he said. The prosecutor also told deputies that Mr Zvyahilsky, a former coal mine director from Donetsk, a large city in eastern Ukraine, was suspected of embezzling around $3m from a state-owned agro-industry company. The funds, allegedly transferred to a Swiss bank account, have not been recovered.

Mr Zvyahilsky is currently in Israel undergoing medical treatment. After yesterday's vote, the prosecutor may seek his formal extradition. If convicted, the 61-year-old faces a minimum of 15 years in jail. *Matthew Kaminski, Kiev*

Norway warming to Europe

Norwegians are increasingly warming to the idea of European Union membership and more people are taking a stand on the issue although opposition to the move continues to hold a clear lead, according to four opinion polls undertaken after Sweden voted to join the European Union. Since Sweden's Yes vote on Sunday, Norway has stepped up its campaign to convince a reluctant electorate to approve membership in a referendum on November 28.

The surveys revealed that the Yes camp has narrowed the gap by between 5-6 percentage points and has gathered support for the move from 36.3 per cent of the voters. But those opposed retain a strong lead, increasing support for a No vote by just under one percentage point to an average 47 per cent. The sharpest movement in the polls was by those undecided where the figures dropped sharply to an average 14.8 per cent from 20.8 per cent. *Karen Fossli, Oslo*

Plea to lift electricity curbs

Failure to deregulate the European electricity industry could hamper widespread introduction of more environmentally-sound processes at European oil refineries. Mr Tomihiro Taniguchi of the International Energy Agency told a Financial Times conference yesterday that an environmentally-sound gasification process existed to turn high sulphur fuel oil and other unwanted refinery residues into fuel for highly efficient combined cycle power plants. But the economics of such projects are "crucially dependent" on refineries being able to sell the electricity. Only deregulated markets were likely to offer prices high enough to justify such investments, he said.

France in particular has consistently opposed moves within the European Union to deregulate electricity. Conference speakers predicted that European demand for fuel oil would continue to contract. Demand for diesel and aviation fuel would grow the fastest, with petrol demand growing only modestly. *Robert Corzine, Amsterdam*

EMI council's first meeting

Mr Alexandre Lamfalussy, president of the European Monetary Institute, last night warned strongly against the setting in advance of tight exchange rate stability criteria for countries seeking to enter European Monetary Union. After the first council meeting of the EMI – forerunner of the planned European central bank – at its new Frankfurt headquarters, he said it would be "counter-productive and very dangerous" to set explicit exchange rate bands ahead of monetary union which he expects after 1999. The decision should be taken at the end of the two-year period in which "normal fluctuation margins" have to be adhered to. "I just don't see how we can put any precise figure on that today." He said the "very hard lesson" of crises in the European exchange rate mechanism showed that very specific currency fluctuation margins "give a bonus to speculative pressure". *Andrew Fisher, Frankfurt*

Azerbaijan oil deal ratified

The Azerbaijan parliament yesterday ratified a $7.4bn (£4.6bn) contract with a foreign oil consortium to exploit oil reserves of some 500m tonnes in the Caspian Sea. The consortium includes the National Oil company of Iran, together with several US and UK oil companies. The ratification of the September 20 contract removes the last legal obstacle in Azerbaijan to the project – but leaves open the vexed issue of Russia's stance on it. The Russian foreign ministry, a vocal opponent of the contract, said yesterday the link with Iran was causing "great concern." *John Lloyd, Moscow*

Yeltsin continues reshuffle

Mr Boris Yeltsin yesterday continued his leisurely government changes by appointing Mr Vladimir Polevanov, the governor of the Amur region, as deputy prime minister for privatisation. He succeeds Mr Anatoly Chubais, who was promoted to first deputy prime minister. Mr Polevanov, who had overseen the privatisation of the Tokar gold deposits in Amur earlier this year, has been under scrutiny by the communist-dominated regional parliament for his handling of the privatisation.

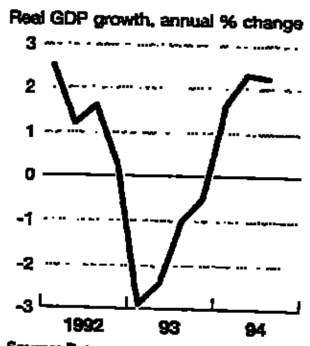
Meanwhile, Professor Richard Layard of the London School of Economics said in Moscow yesterday that Russia is now set "to begin a long period of growth" and was already seeing an end to the fall in gross domestic product. *John Lloyd*

ECONOMIC WATCH

W German GDP up 'about 1%'

Western Germany

Real GDP growth, annual % change



Source: Datastream

West German gross domestic product rose "about 1 per cent" in the third quarter, bringing aggregate growth for the first nine months to 2.25 per cent, the economics ministry said yesterday. Although the recovery now extended to the whole country and was firmly based, it was still not safe to say that an extended upswing was assured, the ministry added in its monthly report on the economy. Rising international interest rates and the marked strengthening of the D-Mark against the US dollar presented risks to recovery which made it all the more important for pay negotiators to show restraint in the 1995 wages round. Final figures are not expected for some weeks, but the data published yesterday is still in line with previous government forecasts made just before the federal elections last month. *Christopher Parkes, Frankfurt*

■ French non-farm payrolls, excluding the state sector, rose a seasonally adjusted 58,400, or 0.4 per cent, in the third quarter after a rise of 85,100, or 0.6 per cent, in the second quarter, according to the labour ministry.

■ Italy's industrial production grew 4.1 per cent during the first nine months compared to the same period last year, according to Istat, the national statistics institute. A strong recovery is under way in nearly every sector of industry. Production of consumer goods in the three quarters rose 4.6 per cent and that of intermediate goods increased 4.6 per cent.

هكذا من الأصل

Pan-Europe stock market planned

By Richard Gourlay, Growing Business Correspondent

Plans to launch a pan-European stock market for fast growing companies were unveiled yesterday by a group of European venture capitalists, the Paris Bourse and the US Nasdaq market.

The new market would provide entrepreneurially-led companies of any size with access to equity finance at an earlier stage than their national stock exchanges currently allow.

The group, led by the European Venture Capital Association, hopes the market – to be called Easdaq – will open in late 1995. This would coincide with the EU directive calling for free movement of financial services across borders which must be implemented nationally by 1996.

A survey conducted by accountants Coopers and Lybrand and funded by the European Commission, established that nearly half the companies seeking a flotation in four European countries would be suitable for Easdaq.

But its success rests on whether institutional investors worldwide will be prepared to invest in the entrepreneurially-led fast growth companies.

Mr Jos Peeters, chairman of the working group on Easdaq, said there were 15,000 venture capital backed companies in Europe "among which the star performers are potential candidates for a listing on the new market".

Easdaq would also appear to compete in the UK with the Alternative Investment Market which the London Stock Exchange will launch next year to replace the Unlisted Securities Market.

Mr Ronald Cohen, chairman of Apax Partners and one of the main driving forces behind Easdaq, said the new market would be highly regulated against fraud. Companies wanting a listing would need a conventional investment bank sponsor and would need to keep the market fed regularly with relevant information.

The London Stock Exchange does not currently expect companies floating on the Alternative Investment Market would be heavily regulated, a shortcoming for serious institutional investment, some investors say. The Easdaq would also have an independent management team, unlike AIM which would remain within the LSE.

Launching the plans for Easdaq, 21 European and US financial institutions yesterday founded a new body, the European Association of Securities Dealers, which will develop the technological infrastructure and settlement systems for the new market.

The Easdaq – which stands for the European Association of Securities Dealers Automated Quotation market – will be a profit-making company.

Before the project can get off the ground the Easdaq company will need to raise about Ecu10m (£7.8bn) in equity capital.

See, Lex

Italian unions call new general strike

By Robert Graham in Rome

The confrontation between the Berlusconi government and Italy's trades union movement escalated yesterday with the calling of a new and more extensive general strike to protest against the 1995 budget.

The fresh strike call came within hours of the government's decision to impose a confidence motion on today's debate in the chamber of deputies on the articles in the budget relating to pensions reform.

The government's use of a confidence motion for the second time in the budget debate is intended to retain tight discipline among the fractious right-wing coalition. But it was also a clear signal to the unions that – despite the huge weekend protest in Rome of 1.5m demonstrating against the budget – the government was determined not to make more compromises.

The general strike will be staged on December 2 and will last eight hours. This will cause much more disruption than the previous stoppage on October 14 which lasted four hours. Outlining plans last week for the demonstration in Rome, union leaders had more or less talked themselves into a new general strike if the government failed to respond by reopening talks on pensions.

Yesterday the northern section of the engineering union said it would stage a three-hour stoppage today in protest against the government move and this will foreshadow stoppages elsewhere. In an effort to prevent further industrial action the government will meet the unions next Tuesday.

The government had little option but to appear tough. The 1995 budget target of holding the public sector deficit down to L138,000bn (£55bn), equivalent to 8 per cent of GDP, is already at risk due to a combination of concessions and the higher cost of servicing Italy's debt stock. Some of the concessions relate to pension reform, making it easier for people to still benefit from early retirement provisions.

But the populist Northern League of Mr Umberto Bossi has been pressing its partners in the right-wing coalition to accept a large number of amendments to pension reform. Some of these are in line with union requests which are seeking to avoid hardship cases and ensure that the reform is thorough - not a mere cost-cutting measure to reduce government spending.

The government plans to raise L8,000bn through cuts in the pension benefits. Yesterday Mr Lamberto Dini, the treasury minister, said the League amendments would cost an extra L11,000bn over the next six years. One of the two main amendments the League has sought to introduce concerns the process whereby those who retire either before the normal retirement age or before they have made their full contributions will be penalised.

Mr Bossi has frequently threatened to break with the government over pensions. But yesterday a League spokesman said it would observe the discipline imposed even though it disapproved of the guillotine method of the confidence motion. To deflect attention from this volte face, Mr Bossi said the League would seek to establish a bridge with the government for renewed dialogue.

By retreating Mr Bossi has shown he is not yet willing to break up the coalition. His stance yesterday was in part determined by the prospect of local elections this weekend where he needs the backing of Mr Silvio Berlusconi's Forza Italia to ensure League mayoral candidates win.

Former bank chief accused of fraud

By Tom Burns in Madrid

Mr Mario Conde, the flamboyant banker who was dismissed as chairman of Banesto by the Bank of Spain at the end of last year, and nine former directors of the troubled bank were yesterday formally accused of criminal fraud by the public prosecutor of Madrid's high court.

A high court judge will now decide whether to charge Mr Conde and his associates. The accusation came as members of a parliamentary commission on the collapse of Banesto were drafting their conclusions to six months of hearings. A member of the commission said the parliamentarians were likely to recommend criminal action against Mr Conde.

The prosecutor's formal accusation yesterday brings to a head the second big financial scandal in Spain in the past month. Mr Javier de la Rosa, the Barcelona financier who together with Mr Conde became an emblem of Spain's booming late 1980s, was imprisoned pending fraud charges three weeks ago.

The prosecutor, who demanded surety totalling Pta12bn (£59m) against all the ten accused in the Banesto case, has passed the results of his investigation to a judge at the senior court dealing with monetary offences.

Details of the accusations were not released at the prosecutor's request and court officials said the judge had up to two weeks to decide whether to bring the case to court.

Mr Conde was removed as Banesto chairman after a Bank of Spain inspection revealed it had heavily overvalued its assets. A self-made millionaire, Mr Conde became chairman in 1987 at age 39 after he used the proceeds of disposal of a pharmaceutical business to buy shares in the bank.

The most damning public evidence against the bank's former executives came from Banesto's present chairman, Mr Alfredo Sáenz, who told the parliamentary investigation: "In Banesto there are cases in which money has not been lost; it has disappeared and somebody has it."

Mr Sáenz became chairman of Banesto after it was acquired by Banco Santander in April following a lifeboat operation involving Pta780bn in public and private monies to salvage the institution. The Bank of Spain said Banesto had been "grossly mismanaged" when it ordered the removal of Mr Conde, who claimed the move was political.

Spain has been gripped a by several spectacular public scandals this year. Mr Mariano Rubio, the former central bank governor, was jailed over a share sale and still faces charges. The former chief of the Civil Guard is on the run from Spanish police and Prime Minister Felipe González is at the centre of a controversy for allegedly favouring a family member with government contracts.

Power struggle over EU policy stalls Austrian coalition talks

By Eric Frey in Vienna

A power struggle over who should be in charge of European policy is holding up Austrian government coalition talks more than a month after disenchanted voters returned the traditional conservative and socialist coalition partners with less than their usual overwhelming majority.

At the same time, an ambitious austerity plan to cut government and social spending by ASch220bn (£12.8bn) over four years has run into strong opposition from the trade union forces within Chancellor Franz Vranitzky's Social Democratic party (SPOe). The cuts are needed to bring Austria's budget deficit in line with the European Union's Maastricht convergence criteria for economic and monetary union.

Observers still expect the SPOe and the conservative People's party (OeVP) will patch up their differences and continue the so-called grand coalition that has ruled Austria since 1986. But five weeks after the elections, in which SPOe and OeVP saw their majority shrink from 97 to 51, there is growing talk in Vienna of a breakdown of the coalition.

Waiting in the wings is the right-wing Freedom party (FPOe) led by Mr Jörg Haider, which boosted its voting share to almost a quarter and has made the OeVP the tempting offer to back a minority government in parliament. Because of Mr Haider's extremist and xenophobic views, liberal forces in the OeVP, which holds only 52 seats in the 183-seat parliament, have ruled out any partnership with the FPOe.

However, foreign minister Alois Mock, who represents the conservative wing of the OeVP, has shown few qualms about co-operation with Mr Haider. Even though he is seriously ill with Parkinson's disease, Mr Mock still hopes to become chancellor and has not forgiven Mr Vranitzky for denying him this post in a closely contested election in 1986. His demand to be put in charge of all aspects of European policy when Austria joins the EU on January 1 is seen as a ploy to break up the coalition talks and wrest control over the party from its liberal chairman Mr Erhard Busek.

Mr Vranitzky, by contrast, wants the co-ordination of EU policy to rest in the chancellery. He argues that the issues decided in Brussels go well beyond traditional diplomacy and touch every aspect of government policy. He wants a strong state secretary for European affairs in his office to balance the foreign ministry's role.

The dispute is hard to solve because the constitution does not clearly define the chancellor's responsibilities. He heads the weekly cabinet meeting, but is not officially charged with co-ordinating government policy.

The outcome of the power struggle is certain to affect Austria's position on European security policy. While Mr Mock wants to abandon neutrality and join the Western European Union, Mr Vranitzky wants to preserve neutrality as long as a common defence policy does not yet exist. Mr Mock and Mr Vranitzky are also at odds over relations with eastern Europe and EU policy toward Bosnia. Mr Mock is much keener on integrating eastern Europe quickly and on supporting the Bosnian government, including ending the arms embargo.

Even if the coalition continues, the current impasse could still spell trouble for the government in the coming months. Few observers expect it to last the full four years.

While the right wing of the OeVP is pressing Mr Busek, the party chief, to play the Haider card, leftwingers in the SPOe are calling for a retreat into the opposition to recover strength after the disastrous election result.

Meanwhile, the powerful trade unions are challenging Mr Vranitzky's pragmatic and pro-business policy and are demanding a better social balance in the current round of spending cuts. On Monday, the trade union representative in the SPOe's negotiating team, Mr Rudolf Nuernberger, walked out of the talks. The OeVP, however, insists on a brake on Austria's generous social programmes to bring the budget deficit below 3 per cent of gross domestic product until 1998 from 4.7 per cent this year.

NOVEMBER 16th

Court clears EU path on trade accord

By Emma Tucker in Brussels

The European Court of Justice yesterday paved the way for EU ratification of the Uruguay Round trade accord before the year-end deadline by ruling on a dispute between the Commission and member states.

In a long-awaited pronouncement, the court ruled that the Commission will have to share responsibility with member states for negotiation in certain trade areas, such as transport, services and intellectual property rights.

The ruling supports the argument made by member states that the Commission's existing authority does not extend to these areas, which will come to the fore in future trade negotiations under Gatt's successor body, the World Trade Organisation.

Although the court's verdict was interpreted as a setback for the Commission, Sir Leon Brittan, trade commissioner, said: "We now have a clear basis on which we can all work together in Europe both to ensure that the WTO enters into force on time, with full European participation, and to ensure that Europe plays a strong role from day one in shaping the agenda for the WTO itself."

The Commission had argued that the Uruguay Round accord should be ratified under those articles of the Rome and Maastricht treaties that give it exclusive authority to negotiate on trade. The full implication of the court's opinion will take time to digest but the Commission highlighted a number of points yesterday.

● Trade in goods will continue to fall completely within the exclusive jurisdiction of the Commission. This includes trade in nuclear goods and in coal and steel products.

● Cross-border services such as telecommunications, audio visual, and financial services that are transmitted electronically across frontiers are analogous to trade in goods, and therefore fall under the jurisdiction of the Commission.

● Other types of services which imply movement of people or establishment within the community – for example, when a third country company sets up a subsidiary – will be a shared responsibility.

● In intellectual property rights jurisdiction remains with member states, other than in the case of counterfeit goods crossing borders. The court added the community may be called on to act in any case where there was a direct repercussion on the functioning of the common market.

The Commission and the member states will now have to decide on the best way to proceed. An EU official said yesterday that the parties would need a code of conduct as a basis for negotiation, but added that an original code – drawn up by the German government and the Commission – was now out of date and that a new one would have to be considered.

"There has been agreement that some sort of code of conduct will be needed, but there is not yet a unanimous view of what sort of code. We have to look at the court decision and decide what sort of rules are appropriate," the official said.

All 12 national parliaments must now ratify the Uruguay Round deal before the end of the year. Three countries – Greece, Germany and the UK – have already ratified the accord setting up the WTO and its annexes containing the specific agreements negotiated under Gatt on areas such as agriculture, textiles and telecommunications.

EU foreign ministers have also sent the accord to the European Parliament to press on with its own ratification procedures.

Brussels to ratify deal by Christmas

By Frances Williams in Geneva

The European Union expects to ratify the Uruguay Round trade accords "before Christmas", a senior EU trade official said yesterday.

The official, who was in Geneva for a meeting of the Quad group of leading traders, said the other Quad members – the US, Japan and Canada – planned to ratify the accords before the Uruguay Round implementation conference on December 8.

He forecast that most EU member states would ratify by the time of the implementation conference, which is expected to set a January 1 1995 date for the Uruguay Round and the World Trade Organisation, that will police the accords, to become effective. But he said all 12 nations might not complete national procedures until EU foreign ministers met on December 19-20. The EU itself would then be in a position to ratify.

The official said that the EU, Japan and Canada favoured a limited transition period during which the WTO and the General Agreement on Tariffs and Trade (Gatt) would operate in parallel.

The US has already said it intends to pull out of Gatt as soon as possible after the WTO comes into force, but the EU official said he saw "no major difficulty" with a short transition of perhaps one year. Of the 125 participants in the Round, only about 80 are likely to have ratified the trade accords by January 1.

Japanese legislators said earlier this month that Tokyo was likely to ratify the pact during its current parliamentary session ending on December 3, but might postpone diplomatic steps to seal the pact due to delays in the US and Europe.

Brussels also remains confident that its candidate for WTO director-general, Mr Renato Ruggiero of Italy, will be chosen by next month.

Mahathir mars Apec consensus

ASIA-PACIFIC ECONOMIC CO-OPERATION

Pacific rim leaders yesterday agreed to draw up concrete plans in the next year for completely free trade and investment in the region by the year 2020 in a move they said would give a powerful impetus to further liberalisation in the rest of the world, write Peter Montagnon and Guy de Jonquières in Jakarta.

However, the impact of their decision at the Asia-Pacific Economic Co-operation forum in Bogor, near Jakarta, was marred by reservations from Malaysia. Its prime minister, Dr Mahathir Mohamad, said the agreement was non-binding and the timetable merely indicative.

Other leaders of the 18-member group hailed the agreement as an historic breakthrough, but said they had yet to define what "free and open trade" meant. Crucial questions include how far it should cover services as well as goods, and whether Apec should demand concessions from other countries before extending its planned liberalisation to the rest of the world.

Mr Paul Keating, Australian prime minister, said decisions on these issues would have to wait at least until next year's Apec meeting in Osaka, Japan. But he called the statement, which commits the region's more advanced countries to free trade by 2010, a triumph comparable to the foundation of the Bretton Woods institutions in 1944.

US President Bill Clinton said the agreement was "potentially historic," but its realisation would require continuing commitment by political leaders.

The summit gave a boost to China's hopes of joining the new World Trade Organisation next year by stating that "full and active participation in and support of the WTO by all Apec economies" was vital to strengthening the world trade system.

The meeting agreed to accelerate implementation of the Uruguay Round world trade deal and announced a standstill "under which we will endeavour to refrain" from measures which increase trade protection.

Several leaders sought to play down worries about another clause in the statement which would apparently allow countries not ready to participate in co-operative arrangements to join at a later date. "To have gone this far is frankly amazing," said Sir Hamish Macleod, Hong Kong's financial secretary. "If you think back a year or two, you would not have believed it could happen."

The widespread assumption is that Malaysia's objections will be insufficient to prevent work proceeding. Malaysia has offered to host Apec's meeting in 1998 and demonstrated its interest in free trade by sharply cutting tariffs in last month's budget.

Dr Mahathir's chief concern is to avoid being sucked in to a process dominated by the US and outside the multilateral framework.

Other countries, such as China, Japan and Thailand, may raise similar objections once work begins on the details.

Apec officials have warned privately that defining the scope of the programme will be even harder than setting a timetable for its completion. Already Japan, South Korea and some other countries have said full liberalisation of their agricultural markets would be politically difficult.

See Editorial Comment and Observer

Leaders committed to further liberalisation

By Guy de Jonquières

The leaders of the 17-member Apec countries agreed to build on the Uruguay Round world trade deal and take the lead in strengthening the open multilateral trading system, saying the "full and active participation in and support for the WTO [World Trade Organisation] of all Apec economies" was vital to this objective.

They would accelerate implementation of their Uruguay Round commitments and aimed to deepen and broaden its results.

"We also agree to commit ourselves to our continuing process of unilateral trade and investment liberalisation. As evidence of our commitment to the open multilateral trading system, we further agree to endeavour to refrain from using measures which would have the effect of increasing levels of protection," they said.

They pledged promptly to reduce further trade and investment barriers "in a Gatt-consistent manner" and believed this would stimulate further multilateral liberalisation. "We wish to emphasise our strong opposition to the creation of an inward-looking trade bloc that would divert from the pursuit of global free trade... The outcome of trade and investment liberalisation in Asia-Pacific will not only be the actual reduction of barriers among Apec economies but also between Apec economies and non-Apec economies."

The leaders urged the successful launching of the WTO. "Full and active participation in and support of the WTO by all Apec economies is key to our ability to lead the way in strengthening the multilateral trading system. We call on all non-Apec members of the WTO to work together with Apec economies toward further multilateral liberalisation."

The statement outlined the vision for Asia-Pacific economies as "based on a recognition of the growing interdependence of our economically diverse region, which comprises developed, newly industrialising and developing economies.

"The Asia-Pacific industrialised economies will provide opportunities for developing economies to increase further their economic growth and level of development."

Free and open trade and investment in Asia-Pacific would be achieved by developing countries by the year 2020 and by industrialised economies by 2010, it continued.

However, in another part of the statement, the leaders said: "In order to facilitate our co-operation, we agree the Apec economies that are ready to initiate a co-operative arrangement may proceed to do so while those that are not yet ready to participate may join at a later date.

"We direct our ministers and officials immediately to begin preparing detailed proposals for implementing our present decisions. The proposals are to be submitted soon to Apec economic leaders for their consideration and subsequent decisions. Such proposals should also address all impediments to achieving our goal."

The leaders also agreed to examine the possibility of a voluntary consultative dispute mediation service, while stressing that the WTO should be the primary channel for resolving trade disputes.

Dr Mahathir Mohamad: agreement was non-binding

MALAYSIAN CONCERNS

In an unpublished memorandum circulated in Jakarta last night, Malaysia said it would "only commit to undertaking further liberalisation on a unilateral basis at a pace and capacity commensurate with our level of development". It said Apec liberalisation should "not create an exclusive free trade area in Asia Pacific". Liberalisation must be consistent with the Gatt and WTO and "on an unconditional MFN [Most Favoured Nation] basis".

It said the target dates of 2020 and 2010 for Apec liberalisation were "indicative and non-binding," and liberalisation should be "undertaken on a best endeavour basis" consistent with countries' level of economic development. Liberalisation should "only cover a substantial proportion of Asia Pacific trade and should not go beyond the provisions of Gatt and WTO". Referring to the provision in the statement allowing countries to join Apec liberalisation at a later stage, Malaysia said "decisions in Apec should be taken on the basis of consensus".

Carmakers jostle for stake in China project

Mercedes-Benz unveils people's car prototype

By Tony Walker in Beijing

Mercedes-Benz was prepared to invest up to DM2bn ($1.3bn) in China to build 250,000 models a year of its "people's car" designed specifically for the local market, a senior representative of the German carmaker said yesterday.

Mr Jürgen Hubbert, head of Mercedes-Benz's car division, said that efforts to win Chinese approval for the family car project were part of the "globalisation" of the company's business.

"The increasing internationalisation of world business has led the company to go one step further than export or foreign assembly," he said. "Mercedes-Benz is now looking for overseas production locations where it will not just assemble, but develop and manufacture passenger cars of the highest quality."

Mr Hubbert was speaking after Mercedes-Benz had unveiled its prototype Family Car China (FCC) at a lavish exhibition in Beijing, attended by 22 international carmakers showing their wares in an attempt to be selected as partners in a Chinese people's car project.

China's Ministry of Machinery Industry, responsible for the vehicle sector, said it would select successful bidders within a year.

It is not clear whether there will be more than one company selected.

China announced earlier this year that it aimed by the year 2000 to have built an industry capable of supplying 90 per cent of domestic requirements of about 1.5m cars annually. China manufactured 234,000 cars last year.

Among Mercedes-Benz's competitors are Porsche and Volkswagen of Germany, Nissan and Toyota of Japan, Fiat of Italy, Daewoo and Hyundai of South Korea and General Motors and Ford of the US.

Porsche, like Mercedes-Benz, has developed a prototype for the Chinese market known as the C88. To overcome scepticism about the involvement of a luxury carmaker in the project, Porsche executives are publicising the fact that it was Ferdinand Porsche who designed and built the first Volkswagen in the mid-1930s.

Mr Stefan Geist, Porsche's marketing manager, said that one of the company's aims was to show that "we not only produce sports cars, we are also able to do other things like providing design and engineering services".

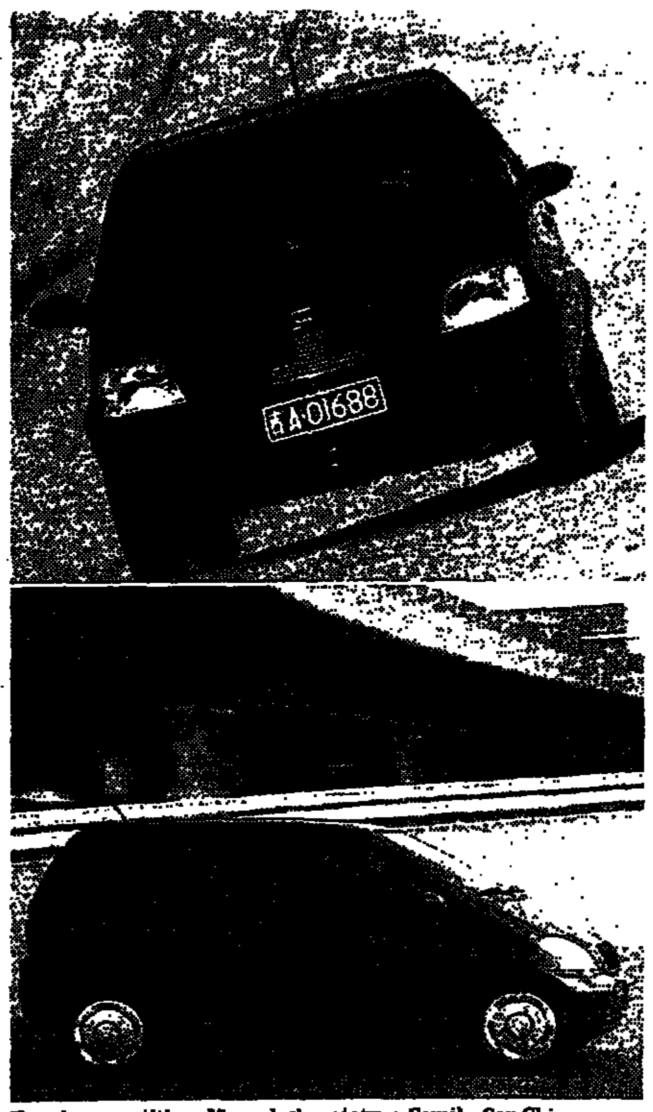
Unlike Mercedes-Benz, whose interest is in a 50-50 joint venture producing cars, Porsche wants to supply basic design and engineering assistance to a Chinese manufacturer in return for a fee or royalty on models produced.

Ford, which is showing its Fiesta and other small models in Beijing this week, also invoked the past to strengthen its claims to participate in the people's car project.

Referring to the Model T Ford, the world's first mass-produced car, Mr Wayne Booker, executive vice-president for international automotive operations, said: "Ninety-one years ago Henry Ford had a vision of providing the greatest good for the greatest number of people. From that beginning Ford has adhered to the vision of serving working people."

Volkswagen, the German carmaker which is already the leading car producer in China, said the Seat Cordoba, introduced in China recently as the City Golf, could be the basis for a people's car.

Mr Martin Posth, responsible for Asia, said VW would present a complete concept covering development, production, national specialisation, distribution and service.



Tough competition: Mercedes' prototype Family Car China

NEWS: INTERNATIONAL

Africa leaders bid to salvage Angola peace

By Our Foreign Staff

African leaders met in Zambia yesterday in an urgent attempt to keep Angola's faltering peace accord on track.

The meeting of southern African states followed a last-minute postponement from yesterday to Sunday of the signing of the accord, painstakingly negotiated by United Nations mediators over 11 months.

The leaders, who earlier this year used both carrot and stick to reverse a coup ousting one of their members in Lesotho, were drafting a tough statement telling Angola's warring sides to stop the bloodletting, officials said.

Mr Thabo Mbeki, South Africa's deputy president, has already warned that the leaders will take action – widely seen as including military intervention – should the latest Angolan peace bid crumble as others before it.

Although UN officials declined to give reasons for postponing the signing ceremony, officials said it was because Angola's Unita rebels had refused to sign while the government intensified the war.

In the past two weeks, after the government and Unita had initialled the pact, Angolan army troops overran Unita's stronghold of Huambo in central Angola, throwing the peace process into doubt.

The Lusaka talks are testing the capacity of the southern African states, which originally came together to help in the overthow of white minority governments in Rhodesia and South Africa, to act as guarantors of a regional security pact based on democratic governments.

If such a grouping can succeed in southern Africa, it could set an example of conflict resolution from which the rest of the continent can learn.

Whether manoeuvres in the field are designed to win advantages at the negotiating table, or the last resort of parties or individuals who fear the outcome of the ballot box, Angola is no different from other African states where an upsurge of violence has frequently preceded peace agreements.

This time, however, the MPLA government may have turned the tables on Mr Jonas Savimbi, leader of the Unita movement.

Since he rejected his 1992 election defeat, he has tried to win an ascendancy on the battlefield that would be reflected in the composition of the government that would emerge from the Lusaka peace talks.

The MPLA, however, seems to have made two critical calculations. The first is that it could take Huambo. The second was based on an assessment of international opinion, in particular Washington and Moscow, the two key outside powers.

When Mr Savimbi resorted to war after his election defeat he lost most of his friends in western capitals. Whether the MPLA has broken the spirit of the Lusaka talks or not, Unita's cries of foul play will have little impact.

No one underestimates the capacity of Mr Savimbi further to disrupt the peace process. Even if the signing goes ahead on Sunday formidable obstacles remain – not the least of which is the integration of two rival forces into a national army.

But regional and international developments are putting him under intense pressure. The prize is bringing peace to a region where the wars for independence began in the early 1960s; even the unpredictable Mr Savimbi, argue frontline officials in Lusaka, knows that sooner or later he has to settle his differences at the conference table and abide by the result.

Law of the Sea promises many disputes

By Bruce Clark, Diplomatic Correspondent

The United Nations Convention on the Law of the Sea, which enters full force today, seems likely to be treated by coastal states as a rich source of legal and rhetorical arguments to be used against rivals.

This is in spite of the fact that the last thing the law's drafters wanted was to provide disputatious countries with extra torpedoes. One of the law's ostensible purposes is to encourage compromises over the exploitation of maritime resources, even among countries with unresolved disputes.

Apart from a standoff in the Aegean – where Turkey has threatened war if Greece extends its territorial waters to 12 miles – one of the most grave maritime disputes involves China and Vietnam, locked in a war of words over oil rights in the South China Sea.

Both China and Vietnam claim to be acting in accordance with the Law of the Sea but their interpretations of the document are miles apart.

Over the last month, China has accused Vietnam of infringing its interests in international waters by inviting US and European companies to explore for oil in the Tonkin Gulf.

Vietnam has retorted that it is exercising its legitimate rights in the economic zone to which it is entitled by the UN convention. It said that under the terms of that treaty, there were no international waters in the Gulf.

This dialogue of the deaf reflects confusion over the difference between territorial waters – which may be extended, under the UN Law, up to 12 miles – and the "economic zone" which coastal states are entitled to claim, amounting to either 200 miles or the full extent of their continental shelf, whichever is larger.

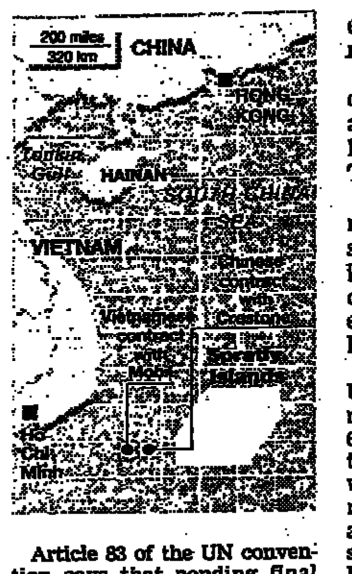
China and Vietnam are also arguing over resources around the Spratly Islands, a group of reefs and atolls whose other would-be owners are Taiwan, Brunei, Malaysia and the Philippines.

China has awarded an exploration contract to the US company Crestone for an area south-west of the Spratlys, while Vietnam has awarded a consortium led by Mobil a bloc slightly further to the west. Each state has denounced the other's contract.

Sovereignty over the Spratlys – and hence control of the surrounding economic zone – is crucial to each side's claim to energy rights, and the salience of this issue is expected to grow as the UN convention enters force.

However a study by a London-based law firm, maintains that the law favours pragmatic joint exploitation accords, even among countries with unresolved disputes.*

Laying out the commonsense arguments for such accords, it notes that oil deposits which straddle two states' economic zones cannot be exploited by one without damaging the other's interests. When one state drills, oil from the rival state's zone is liable to flow across the boundary line as a result.



Article 83 of the UN convention says that pending final agreement on zones, countries should "make every effort to enter into provisional arrangements of a practical nature".

As an example of such a deal, the study cites the 1989 accord between Australia and Indonesia over waters south of Timor.

However, such accords are not a panacea. Portugal – still seen by the UN as legal administrator of East Timor – has challenged Australia's right to enter the accord, before the International Court of Justice.

The entry into force of the UN Law comes a year after its ratification by the minimum of 60 states. Another breakthrough came this summer when provisions on deep-sea mining – outside the zones of any country – were amended so as to convince the US, the UK and Germany to sign.

*Paper by Charles Robson of Lovell White Durrant, 65 Holborn Viaduct, London EC1A 2DY

Import boom spurs fall in Japan's trade surplus

By William Dawkins in Tokyo

Japan's trade surplus fell faster than expected for the third month in a row in October, thanks to an import boom. Economists greeted this as fresh evidence of change in the country's economic structure.

The politically contentious trade balance shrank by 15.2 per cent compared with the same month last year to \$9.28bn (£5.65bn). That is well below the lowest forecast by Tokyo economists, and likely to strengthen Japan's position in trade talks this week with the US and, separately, the European Union.

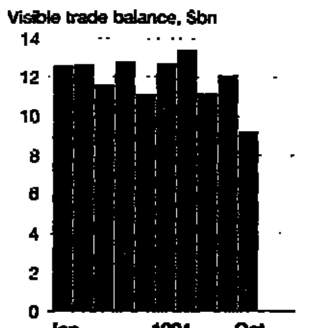
This brings the three-month moving average for the surplus to \$8.47bn, the lowest since May 1992. A finance ministry official said the surplus was now at a turning point.

Imports surged ahead in October by 34 per cent to \$25.34bn, more than twice as fast as exports, up by 10.4 per cent to \$34.62bn according to preliminary finance ministry figures. Sales of foreign goods in Japan have risen in dollar terms every month this year.

Import penetration of the domestic market may be growing, said economists. The yen's rise against the dollar has made many imports cheaper in the Japanese currency. There has also been an increase in imports from the growing number of Japanese factories which flee high-cost Japan for cheaper overseas locations.

Japan's domestic market is also gradually growing again and hence sucking in imports.

Japan



Source: Datastream

The rise in domestic demand was underlined yesterday by separate official reports of a 0.7 per cent rise in private sector machinery orders in the year to September and a 9.8 per cent rise in steel output in October, to reach a three-year high.

Previous rises in imports on this scale, in the mid 1980s, have been led by European luxury goods. The latest increases have been more broadly based, geographically and by sector. Imports have grown across all nine industrial sectors measured by the finance ministry, from food to machines, as well as from all Japan's seven main trade regions.

The surplus with the US fell for the first time in eight months, by 6.8 per cent to \$4.79bn, helped by a 26.4 per cent rise in imports. October was the fourth consecutive month in which Japan's purchases from the US grew faster than its sales to the US. Imports from the European Union rose even faster, by 33.6 per cent, while the rest of Asia sold 21.7 per cent more to Japan than it did a year ago.

IMF set to assist more ex-Soviet states

By Steve LeVine in Alma Ata

The International Monetary Fund is considering support agreements in Uzbekistan, Armenia and Azerbaijan, the last three candidates for a scaled-down programme specifically designed for eastern Europe and the former Soviet Union.

If the three republics are granted Systemic Transformation Facilities, the IMF will be assisting almost all the independent nations that emerged after the Soviet collapse.

It would leave just ex-Yugoslavia, Georgia, Tajikistan and Turkmenistan without IMF assistance when the STF programme closes to new members next month.

The IMF has eased its requirements in this programme, a special case being made for eastern Europe and the former Soviet Union. In general, the IMF has responded to criticism that its guidelines were too tough for this region.

The two Caucasus republics of Armenia and Azerbaijan, for example, have among the region's worst economies mostly because of their six-year undeclared war against one another. Uzbekistan, conversely, has suffered little instability but has been among the most reluctant to adopt genuine economic reform.

"These have been the laggards all along," said a western economist, referring to the last three STF candidates. "You don't know whether they are now committed to reform, or if they simply see the boat leaving and don't want to miss it."

Analysts believe Armenia will almost certainly reach agreement with the IMF. While economists are not entirely satisfied with Azerbaijan's performance, it would be politically difficult for the IMF to admit Armenia but not its enemy.

Uzbekistan is trying to persuade the IMF that it will stop indirect subsidies to state enterprises and reduce state control over its main industry, cotton.

INTERNATIONAL NEWS DIGEST

Growth rate at 2.6% in S Africa

South Africa said yesterday its gross domestic product grew by a worse-than-expected 2.6 per cent in the third quarter of the year. Following a decline in GDP of 3.6 per cent in the first quarter and a rise of only 1.6 per cent in the second quarter, the latest figures mean that the final growth rate for 1994 is likely to be about 2 per cent, only slightly up on last year's 1.1 per cent. The announcement is a blow for the government, which earlier in the year had been forecasting growth of 3-4 per cent for 1994. However labour unrest and political uncertainty surrounding the country's April elections appear to have dented growth in the first half of the year.

The news, which came as the administration presented the latest version of its centrepiece economic plan, the Reconstruction and Development Programme (RDP), to parliament, may also make it difficult for the administration to meet its revenue targets for the year. The White Paper on the RDP is predicated on a 3 per cent annual growth rate for South Africa. *Mark Suzman, Johannesburg*

Charity quits Rwandan camps

Médecins Sans Frontières, the international medical charity, has evacuated its staff from Rwandan refugee camps in eastern Zaire where lawless Hutu militia have imposed a reign of terror. MSF said soldiers and militia linked to the ousted Rwandan government had taken control of the camps around Bukavu, home to some 250,000 refugees. MSF medical staff have witnessed the intimidation, arrest and assassination of refugees wishing to return to Rwanda. Charity workers who have tried to intervene to save lives have themselves received death threats. Hutu militia carry weapons inside the camps and are drafting young Hutu men into forced military training. They have also taken control of the distribution of food aid. "The situation has deteriorated to such an extent that it has become ethically impossible for MSF to continue aiding and abetting the perpetrators of the Rwandan genocide," Ms Samantha Bolton, an MSF spokeswoman, said yesterday in Nairobi. *Leslie Crawford, Africa correspondent*

Uncertainty in Nepal election

Nepalis voted yesterday to choose a new parliament amid scattered violence and anxieties that no clear majority would emerge to guide the new Himalayan democracy out of poverty. Despite the deployment of more than 100,000 members of the security forces, at least 13 people were injured in clashes between supporters of rival parties, police and local officials said. More than 1,250 election observers, including 130 foreigners from 28 countries, were posted in 205 constituencies for the kingdom's second general election since pro-democracy protests ended an absolute monarchy in 1990.

In 1991 the centrist Nepali Congress party won the country's first free elections in 31 years after King Birendra was forced to relinquish almost all of his power. But factional infighting and corruption allegations plagued the ruling party, forcing Prime Minister Girija Prasad Koirala to call parliamentary polls 18 months ahead of schedule. A total of 12.3m people were eligible to vote. No idea of the outcome was expected before Friday. Political observers were split over whether the Congress party, which held 114 of 205 seats in the outgoing parliament, would overcome internal wrangling to retain a majority. *Reuter, Kathmandu*

Nagano backs bank's 'lottery'

The growing row among Japanese banks over a plan by one of them to launch a lottery-linked deposit account was joined yesterday by one of the country's leading businessmen. Mr Takeshi Nagano, the president of the Japan Federation of Employers' Associations (Nikkeiren) told a news conference that he regarded the new account launched by the Johnan Shinkin Bank, the country's largest credit bank, as within the bounds of free competition.

Last week the bank provoked fury among its rivals by offering customers a time deposit account that carries with it eligibility for a lottery in which savers can win up to Y50,000 (£320). The bank's competitors claimed this breached voluntary rules that they would not offer large cash prizes as incentives to depositors. But Johnan Shinkin said the real reason anger was that it had broken a closet cartel that kept down interest rates. Rates were liberalised last month by the Ministry of Finance, but since then there has been little difference between rates offered by the country's banks. The other banks put their objections to the ministry which on Monday set up a panel of inquiry to review the bank's actions. "It may be a grave matter for the Finance Ministry but I think it is within the framework of liberty for the management of financial institutions," Mr Nagano said. *Gerard Baker, Tokyo*

Australian budget deficit down

Mr Ralph Willis, the Australian treasurer, said yesterday that the government's budget deficit for the 1994-95 financial year could turn out to be lower than the A\$11.7bn (£5.5bn) forecast.He also said Australia's economy was growing at an underlying rate of about 5 per cent, although drought was depressing the final result. The government has been criticised for running too loose a fiscal policy, and using higher tax receipts from the faster-than-expected economic recovery to tackle issues such as long-term unemployment at the expense of pruning the government deficit. Government forecasts have suggested that the country will not be in surplus until the late 1990s. Financial markets have also been sceptical about the country's inflation outlook, particularly in the light of some large wage claims recently. *Nikki Tait, Sydney*

Taiwan expresses regret over shelling of China

By Laura Tyson in Taipei and Tony Walker in Beijing

Taiwan yesterday expressed regret over what it described as the accidental shelling of China after a burst of Taiwanese anti-aircraft rounds landed on the mainland, seriously wounding two people.

Beijing reacted angrily, describing the shelling as a vicious attack that "sabotaged the peaceful atmosphere across the Taiwan Strait".

China claimed that 12 shells had landed in a suburb of Xiamen which is located on the mainland coast adjacent to Taiwan. It expressed "grave concern" and demanded severe punishment for those responsible.

Taiwan's defence ministry said it was investigating the "unfortunate mistake" in which anti-aircraft shells used in a training exercise had failed to explode in mid-air but landed instead on the mainland.

"We express deep regret over this mistaken incident which had no hostile intent," said a Taiwanese statement.

Taiwanese officials have not at this stage explained how the shells came to be fired in the direction of the mainland in the first place. Taiwan has offered to pay compensation to the wounded.

The errant shells were fired from anti-artillery batteries on the island of Lesser Quemoy, six kilometres to the east of Xiamen. The island was often at the centre of fierce artillery duels in the 1950s between Taiwan and the mainland.

Yesterday's incident will add to unease across the Taiwan Strait, but seems unlikely to affect a timetable for continuing talks between Taiwanese and mainland officials aimed at improving working relations.

The next round of talks is due to be held in the Yangtze River town of Nanjing between November 21-23. The discussions have been dealing with issues such as illegal immigration, postal and telecommunications links and prisoner exchanges.

In Taiwan, Mr William Li, spokesman for the Mainland Affair Council which formulates China policy, said he doubted yesterday's shelling would have a serious impact on relations.

"This is an isolated incident and it will not affect relations across the straits," he said.

Filipinos picking their way along a road south of Manila yesterday after an earthquake had left it deeply fissured. The earthquake killed at least 23 people and destroyed 200 homes. AP

Saudi businessmen reach for the media stars

Roula Khalaf tracks a crowded race for dominance of the Mideast satellite television market

Rival Saudi Arabian businessmen are spending close to \$1bn in a race to become the Middle East's media moguls. Seduced by the glamour of the media age, and driven by an urge to influence the content of information and entertainment in one of the world's most conservative societies, they are already beaming more than 20 satellite television channels across the region.

Satellite dishes have proliferated on rooftops in the area since the Gulf war with more than 400,000 in Saudi Arabia alone, in spite of a long-standing ban on dishes. CNN and Star TV, among others, opened a window to the world for a population that had to contend for years with heavy-handed censorship of state-owned channels. Programming is so poor in some places that viewers look forward to the commercial breaks, and rent tapes of commercials from video shops.

Saudi businessmen have rushed to capitalise on the new wave. They knew that the satellite intrusion was unnerving conservative governments. It was no longer acceptable for the image of an embracing couple on American shows such as Dallas or Dynasty, for example, to be frozen and substituted with a channel's logo, a common practice on some state-owned television stations. The would-be media magnates reckoned they could please both governments and viewers by launching a series of agreeable but sanitised channels.

Three rival Saudis have led the quest for the Middle East's satellite viewers (there are an estimated 1m to 2.5m dishes in the Middle East): Sheikh Walid Al Ibrahim, a businessman whose sister is the wife of King Fahd; Sheikh Saleh Kamel, the billionaire owner of Islamic banking group Dallah Al-Baraka; and Emir Khalid Ibn Abdallah Ibn Abdel Rahman, who is married to the King's sister, and is head of the Mawarid Group, one of the kingdom's largest conglomerates. Mr Al Ibrahim started the trend in 1991 when he enlisted Mr Kamel's financial support to launch the Middle East Broadcasting Centre (MBC), the first pan-Arab satellite television station, which quickly gathered an audience of 27m as some Arab countries picked up the MBC signal and rebroadcast it. MBC, broadcast from London, is self-censored but its seeming independence from government control and its news programmes' international flavour – it has an office in Jerusalem, for instance – have made it popular in the region.

Last year Mr Kamel sold his stake in MBC to launch a rival media company, Cairo-based Arabian Radio and Television (ART), which beams four dedicated channels of children's programmes, sports, movies and music.

"We will do anything we can do to protect our Arab children from the coming invasion from western countries," Mr Saria Al Khatib, a manager at ART, says.

MBC is preparing to launch four additional channels. Media consultants say ART and MBC are spending at least \$200m each on their projects.

Mr Ibn Abdallah has loftier ambitions, a more liberal mind-set and a fatter wallet. In May, his Rome-based Orbit Communications Company is spending about \$500m launching 16 television and four radio channels targeted at Mideast viewers.

More Arab businessmen are joining the race. Mr Mohammad Al Sager, editor of Al Qabas, Kuwait's largest daily, is the biggest shareholder in a new company which has raised \$50m to set up yet another pan-Arab channel, expected to be on the air next year. Various Arab countries, meanwhile, are broadcasting their state-owned channels via satellite.

The Middle East market, however, is not big enough to support all the new channels. ART and MBC are aiming to attract mass audiences by beaming services for free until they get on cable systems, still to be set up in most of the region.

Advertising revenue is still too low to support that many channels. In Saudi Arabia, the largest advertising market in the region, total advertising expenditure stood at \$247m in 1993 with television's share a mere \$57m, according to the Dubai-based Pan-Arab Research Centre.

Orbit, meanwhile, is a pay television service catering to a small group of western-minded and more liberal viewers. It has signed lavish deals with American networks to rebroadcast news and entertainment programmes and commissioned the BBC to create a World Service Television in Arabic, which is already on the air. Orbit says it buys programmes that would not offend the sensitivities of the region and leaves them unedited.

Just a few months into launch, however, some Orbit dealers who had been selling decoders for \$10,000 have lowered their price to \$6,000 – still a lot considering customers have to pay \$90 to \$200 a year in subscription fees after the first year.

Meanwhile, the Saudi government earlier this year said it would begin to enforce its ban on satellite dishes. Although few have been taken down as a result and a black market in dishes is flourishing, the ban has dampened hopes of growth.

At the same time the government is investing up to \$500m in a cable system, which is easier to censor. That will put further pressure on the market but may give MBC an edge over its rivals because the system will be operated by an MBC affiliate, also majority owned by Mr Al Ibrahim.

The system will start with 20 channels and eventually reach 30. Five channels are likely to go to MBC, and Arab government channels, which will receive priority, will take at least a half dozen more. And as the Saudi government seeks to make a return on its investment in cable, it may at last close the doors of the most lucrative Mideast market to satellite dishes.

هكذا من الأصل

NEWS: THE AMERICAS

Fed sees growth flying too fast for comfort

George Graham on why interest rates have risen by ¾ of a percentage point

If the Federal Reserve's policy-setting Open Markets Committee had any last-minute doubts whether the US economy was really running too fast for comfort, yesterday's statistics on retail sales and industrial production will have helped to remove them, prompting its decision to raise short-term interest rates by a larger-than-expected ¾ percentage point.

Retail sales jumped by 1.1 per cent in October and by 7.5 per cent over the last year, led by sectors sensitive to higher interest rates such as cars, furniture and building materials. Industrial production rose 0.7 per cent to stand 6.7 per cent higher than a year ago. Manufacturing production rose 0.9 per cent in October and 7.8 per cent over the last year.

The economy is humming along at near full capacity

These latest statistics provide further evidence that even though the US economy is now in its third year of recovery from recession, it is still barely slowing from a pace that, for a fully industrialised country, can be counted as torrid. If the 6.3 per cent annualised rate of gross domestic product growth recorded in the fourth quarter of 1993 was a freak on the high side, the 3.3 per cent rate of the first quarter of this year was abnormally low, partly because of the California earthquake.

Growth at a 4.1 per cent rate in the second quarter and at 3.4 per cent in the third quarter – and accelerating again in the fourth quarter, according to many Wall Street economists – remains much faster than the roughly 2.5 per cent pace the Fed would be comfortable with as sustainable without giving way to a surge in inflation. Although there have been some recent signs of slowdown, by most measures the economy is humming along at very close to full capacity.

The number of payroll jobs has risen by 2.6m in the first 10 months of this year, bringing unemployment down to 5.8 per cent last month, lower than the point at which most economists estimate that labour shortages start to make themselves felt in the shape of higher wage demands.

Job creation has been even stronger than measured by the Labor Department's statistics. A statistical adjustment added another 760,000 new jobs to the figures for last March.

Interpretation of the unemployment statistics is rendered more hazardous because of a radical change introduced earlier this year in the way the data is collected. Nevertheless, anecdotal signs of labour market pressures are showing up – sharp rises in the wages paid to skilled construction workers in some markets, for example – even though aggregate numbers show wage inflation still to be well under control.

Yesterday's industrial production data, too, showed tightness in the manufacturing industry. The overall industrial capacity utilisation rate of 84.9 per cent in October is the highest recorded since the Fed revised its statistical series in 1982, topping the rate of 84.8 per cent recorded at the very peak of the last business cycle. A utilisation rate of 84.6 per cent for manufacturing industry is only just below the last cyclical peak of 85.1 per cent.

These statistics are problematic, for it is uncertain how much capacity has expanded as a result of the heavy corporate investment of the last two years. Yet here, too, signs of capacity constraints are showing up. Purchasing managers report longer delivery times from suppliers, and manufacturers are increasingly turning overseas for supplies, especially for steel.

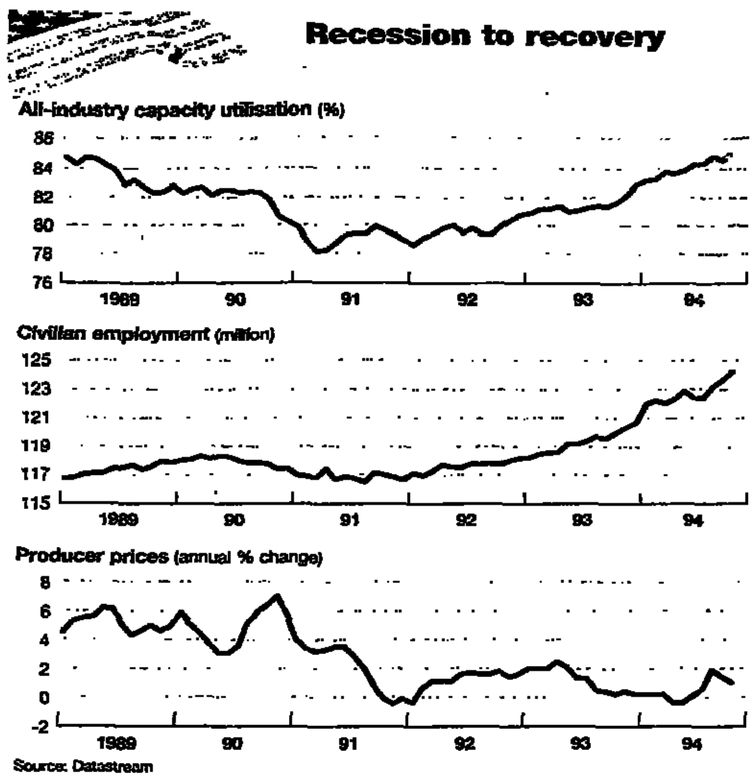
Indeed, the US trade deficit – September's figure is to be announced on Friday and is expected to be unrepentantly large – can be read on one level as confirmation that US demand is growing faster than the domestic economy can supply. With the world's other major economies pulling out of their own recessions, their eagerness to export may diminish, and with it the brake they put on US manufacturers' ability to raise prices.

If these indicators all point to inflationary pressures, the one place where inflation is scarcely showing its face is in the price indices. The consumer price index remains resolutely well-behaved: today's announcement of the October index is expected by Wall Street economists to show an increase of around 0.2 per cent from September, which would lower the year on year rate to around 2.8 per cent. Warning lights can be found in segments of the producer price data – prices of core intermediate goods, excluding food and energy, rose by 0.7 per cent last month, though still only by 3.0 per cent year on year – but the overall index remains resolutely well behaved.

But the Fed wants – and the financial markets want the Fed to want – to control inflation before it shows its face, to avoid either having to raise interest rates sharply at the risk of provoking a recession, or losing the gains made in ten years of wringing inflation out of the economy. The difficult judgment is whether the Fed's five interest rate increases between February and August, together with yesterday's increase, have tightened monetary policy enough to chill the economy next year.

Largest adjustment in interest rates since 1980

The response to the Fed's actions comes with "long and variable lags," as economists like to put it. In the housing sector, for example, the immediate response to higher interest rates may be a rush of buyers, anxious not to miss the boat before rates move higher yet. And Fed governors have been scolding banks for taking some of the sting out of their efforts to raise interest rates by relaxing their own credit terms. They must now hope their decision to raise interest rates by ¾ of a point – the largest adjustment the Fed has made in interest rates since 1980, which banks charge each other on overnight balances held at the Fed – will not jam the brakes on the economy so hard that it plunges into recession.



Source: Datastream

Unions and farmers in rate protest

By Nancy Dunne in Washington

Trade unionists, farmers and consumer groups yesterday protested over rising interest rates in a rally at the steps of the Federal Reserve building in Washington.

A rate rise for the sixth time this year to counter the threat of inflation would "clobber job prospects, squeeze wages, and raise mortgages and other loan payments for millions of Americans," according to a rally leaflet.

Popular concern about rising interest rates is shared by some business groups and economists. They believe the Fed and the bond market have grown "paranoid" over inflation and have failed to take account of the the competitive conditions in the global economy which curb inflation.

At a briefing last week sponsored by two Washington think-tanks – the Economic Strategy Institute and the Economic Policy Institute – a panel of economists and businessmen attacked what has been the fastest tightening of interest rates since the second world war.

Mr Jerry Jasinowski, president of the National Association of Manufacturers, said a majority of chief executive officers in NAM opposed further interest rate rises.

"There is no evidence the US economy is about to overheat, and any further rise in interest rates will simply stifle a steadily growing economy," said Mr Jasinowski.

The US can now produce more with less inflation, he said. "While productivity growth was highest in the manufacturing sector from 1983 to 1993, price increases in manufacturing were the lowest."

Mr James Medoff, a Harvard economics professor, said businesses, already burdened by high levels of corporate debt, have been forced to cut employment and make use of temporary workers and overtime. "Large wage increases are a last resort by firms seeking additional labour."

The Fed's concern about inflation may have inflamed the fears of foreign investors and currency traders, causing them to sell dollars, increasing the possibility of inflation, said Mr Medoff. "The difficulties for the dollar began just when the interest rate increase began, and the sequence of events in the markets in February suggests that the Fed's action was the cause of the dollar's decline rather than a response to the dollar's decline," he said. Mr Preston Martin, former Fed vice chairman, warned that continued rises next year "portends too great a recession risk."

Republicans threaten to strip DC of voting rights

By Jurek Martin in Washington

The new Republican leadership in Congress is threatening to take away the limited voting rights in the House of Representatives enjoyed by the District of Columbia and to downgrade the status of the congressional committee responsible for the nation's capital.

Mrs Eleanor Holmes Norton, the DC delegate, emerged from a meeting with Mr Newt Gingrich, certain to be the next Speaker of the House, promising to fight his proposals.

But the return of Mr Marion Barry as Washington's mayor after a four-year hiatus combined with Republican control of the legislature threatens the city, already in a deep budgetary crisis, with the probability of an extremely unsympathetic reception on Capitol Hill.

Under current procedure Mrs Norton, first elected in 1990, may serve on House committees, address the floor of the chamber and vote when the House sits as "a committee of the whole". But her votes on actual legislation are not recorded. The nation's capital has no representation in the Senate.

Mr Gingrich reportedly told her that he intended to take away the limited voting privilege and deprive her of the right to speak when the House considered the District's affairs.

Mrs Norton received some support for her stand yesterday from Congresswoman Connie Morella, the moderate Republican representing the wealthy Maryland suburb immediately north of the city.

She agreed that it would be unfair to reduce the District, whose citizens pay federal income taxes, to the status of the four offshore protectorates – Puerto Rico, Guam, the American Virgin Islands and American Samoa – which, although exempt from federal income taxes, were granted more limited representation by the Democratic majority last January.

Mr Gingrich also plans to replace the fully fledged House District Committee, recently under the chairmanship of Congressman Julian Dixon, the black Democrat from California, with an unspecified subcommittee of presumably less authority. The message to the District is that it will have to put its own finances in order without help or even much of a hearing from Congress.

US arms sales move

The Clinton administration is considering a new policy which could ease restrictions on US foreign arms sales by taking into account the financial health of the nation's defence industry, defence officials said yesterday, Reuter reports from Washington. Such a step could be a boon to the struggling US arms industry, hit hard by Pentagon budget cuts and falling overseas military sales.

The defence officials, who asked not to be identified, said President Bill Clinton had not given final approval to the plan, and they stressed that US national security interests would remain as the chief factor in deciding whether to sell arms to other countries.

The Los Angeles Times reported yesterday that the US defence industry had won a big victory and that the administration was preparing to adopt the new policy.

Rebel Tory MPs seize on EU fraud report

By Kevin Brown, Political Correspondent

A European Union report exposing massive waste and fraud in the EU will prompt a substantial Conservative revolt against legislation increasing Britain's contributions to the Union, leading Tory Eurosceptics claimed yesterday.

Ministers sought to play down the report, by the Union's Court of Auditors, which said it was impossible to estimate how much money went astray from the Ecu64.2bn (£50.52bn) of EU funds paid out in 1993.

Mr Douglas Hurd, UK foreign secretary, praised the court for exposing the fraud. "It is much better that it should be revealed than that it should lie hidden," he told BBC radio.

But Mr Bill Cash, a leading Eurosceptic backbencher, said the report raised "a very important question as to the extent to which the British taxpayer should continue to pour money into this bottomless, fraudulent pit."

Right-wingers dismissed cabinet attempts to shore up support for the contributions bill, which will increase the UK's net payment to the EU by £75m next year, and about £250m a year by the end of the decade.

They also claimed that only a major surprise in the legislative package to be unveiled in today's Queen's Speech could save the government from a severe mauling when the bill is tabled later this year.

Most MPs expect a dull package of legislation featuring a dozen or so bills, with one or two surprises to compensate for the cabinet's decision to drop Post Office privatisation in the face of backbench opposition.

Right-wingers are threatening a repeat of the damaging backbench campaign waged against a bill implementing the Maastricht treaty after the 1992 general election, which ended only when the government called a vote of confidence.

Ministers are resigned to a battle with the Eurosceptics, but plan to limit the opportunities for parliamentary manoeuvreing by ensuring that the bill is sufficiently tightly drafted to head off backbench amendments.

Labour and the Liberal Democrats will try to embarrass the government by calling for amendments to the Common Agricultural policy, but will not seek to defeat the thrust of the bill, which both parties support.

Right-wingers said the timing of the EU report might help to stiffen support for a backbench challenge to Mr John Major's leadership of the Tory party, which has to be mounted within the next two weeks or delayed until next winter. Rebels claimed criticism of the prime minister's leadership was spreading from the right to the centre of the parliamentary party.

Bank courts smaller firms

By John Gapper, Banking Editor

Growing competition among UK banks to lend to medium-sized companies was indicated yesterday when Yorkshire Bank, a subsidiary of National Australia Bank, unveiled plans to increase its share of the market.

Yorkshire Bank offered a 1 per cent interest-rate reduction for a year on new capital investment loans of up to £2m. It also offered to remove arrangement fees for companies transferring loans of up to £10m from other banks.

Mr Tom Gallagher, the bank's chief executive, warned that loan covenants – the financial terms which borrowers must meet if loans are not to be withdrawn – were being loosened by large banks because of growing competition to lend.

He said: "I see signs in this market that some banks are prepared to lower their lending standards. I cannot believe it. What on earth have they learned?" Many banks suffered losses following unwise lending in the late 1980s.

Although margins on syndicated loans to the biggest companies have narrowed sharply in the past year, Yorkshire Bank's move is one of the first indications that competition is spreading to the mid-sized corporate sector.

Mr Gallagher said that the bank, which has £4bn in assets and 130,000 business customers, had no target for lending but wanted to add to market share.

He said the bank was "sending a signal" that it would be competing more strongly for medium-sized companies' business. He added: "We are very determined to gradually extend our footprint."

The move to cut lending rates under a "business investment loan" package, which is available until March 31, was welcomed by Mr Stan Mendham, founder of the Forum of Private Business, who said it was a small move towards reducing costs.

UK directors pay 'higher'

By Richard Donkin

Main board directors of UK listed companies receive bigger pay rises than their counterparts in foreign-owned companies in Britain, a survey out today shows.

Half received basic salary increases of 7.4 per cent or more, compared with rises of 5.2 per cent for directors of foreign-owned firms, including Mobil Oil of the US and Japanese-owned Toyota.

The survey by Hay Management Consultants analysed more than 11,000 senior managers and directors in 476 organisations in the 12 months to July.

Inflation is currently at 2.2 per cent, while average earnings are edging towards 3.75 per cent.

The mid-level cash increase – including bonus – for UK board directors was 11.2 per cent. Mr Richard Bednarek, Hay's director of executive remuneration, said while the figure seemed high, earnings per share had risen 20 per cent.

"The higher bonus earnings this year are indicative of the strength of the recovery in the UK and are not unexpected at this stage of the economic cycle," he said.

The highest paid sectors were insurance (16 per cent above average); oil (13 per cent above); and retail (14 per cent above). The lowest paid was engineering, paying an average of 10 per cent below the total average.

Of the 227 non-executive directors surveyed, most were paid between £15,000 and £25,000 for an average of 17 days' work per year. The mid-level of pay for non-executive chairmen was £68,000 for an average of 70 days a year.

This is the latest in a series of pay surveys which have put directors' rises well ahead of inflation. According to Day Associates, City managerial salaries have risen on average by even greater amounts. Including bonus, it said, managerial pay in City institutions went up by 15.2 per cent in the year to August.

UK NEWS DIGEST

Top aides go in shake-up of Major's team

Mr John Major extended the shake-up of his inner circle of advisers yesterday by announcing that two of the most prominent backroom politicians in Downing Street would be replaced.

In a further restructuring of the team which will mastermind the Conservative party's campaign at the next election, the prime minister's office announced that Mrs Sarah Hogg would be standing down as head of the No. 10 Policy Unit.

Mrs Hogg, one of the prime minister's closest aides, has held the post for four years. But she has recently been strongly criticised by Tory MPs for some of the policy failures that have beset the prime minister.

It was also confirmed that Mr Jonathan Hill would be leaving his job as political secretary to the prime minister. He will be replaced by Mr Howell James, a former director of corporate affairs at the BBC and one-time adviser to Lord Young, the former trade secretary.

A Downing Street spokesman emphasised that Mrs Hogg, who was in charge of the prime minister's political strategy, was leaving at her own request and had told Mr Major of her wishes last summer.

The advisers' departure further indicates Mr Major's determination to make a clean sweep of the top jobs in his kitchen cabinet with little more than two years until the next election.

Hualon accused over stance on competition

The Hualon Corporation of Taiwan has been accused of planning to go back on its pledge not to compete directly with European producers at its projected Belfast textiles plant.

The British Apparel and Textile Confederation is appealing to the European Court against the European Commission's approval of £61m in government aid for the £157m project.

Mr James McAdam, confederation chairman, told its annual convention that remarks by the company "have strengthened the grounds of our appeal".

He said the commission's decision to approve the aid "was based almost entirely on assurances, given by Northern Ireland's Industrial Development Board, that production from the plant would be high-volume goods of low added value to compete with low cost imports".

But he said the company had "stated that the opposite is the case and that the output of the plant will be high added-value products competing directly with existing European production. This is in conflict with what the government has contended". The confederation says the project makes poor use of taxpayers' money, and claims there is 20 per cent overcapacity in the European Union.

Calf exporters' court move

Exporters of veal calves yesterday won permission to bring an early High Court challenge against a ban on using Coventry airport to fly livestock to the Continent.

Phoenix Aviation and C C Freight, a consortium of farmers and cattle dealers, claimed they were given permission to use the airport this month.

But the Labour-led city council, which owns the airport and has come under pressure from animal rights activists, said no decision had been taken and it was entitled to suspend flights meanwhile.

Sir Christopher Prout QC, appearing for Phoenix and CC Freight at the High Court, emphasised the desperate need of farmers to be allowed to export livestock or face the loss of long-established Continental markets.

He told Mr Justice Tucker the trade had been hit by the refusal of ferries to ship live animals. Only two airports, one of them Coventry, were currently available.

Sir Christopher asked for leave to seek judicial review on the grounds that the council had acted unlawfully and unreasonably in suspending flights.

Manchester passenger record

Manchester Airport yesterday reported record passenger figures of 1.4m for October – 8 per cent up on October last year and more than the airport's annual total 30 years ago.

The continuing growth brought the airport's moving annual total of passengers carried to 14.72m, 12 per cent ahead of the same point in 1993. The airport expects to reach 15m passengers this year.

The increases came in spite of the withdrawal of British Airways' Los Angeles service, Canadian Airlines' flights to Toronto and South African Airways' Johannesburg service, and the suspension until spring of American Airlines' New York service.

However, Aer Lingus has started a New York service from Manchester, Uzbekistan Airways now has a route to Tashkent and France's Regional has started a service to Lille. The airport offers 175 destinations, flown by 95 airlines.

Frequencies were increased on services between Manchester and Rome, Brussels, Amsterdam and Glasgow, while Lauda Air will double its Vienna return flights to two a day from next March.

Housing group to raise funds from US market

By Richard Lapper

A UK housing association has broken new ground by borrowing long-term funds in the US capital markets.

Sanctuary Housing Association, the fifth-biggest in the country, has raised $75m (£47.3m) by placing bonds privately with a group of four US insurance companies and pension funds. The deal, the first overseas borrowing by a housing association, was organised by Hambros, the merchant bank.

Mr David Bennett, managing director of Hertford-based Sanctuary, said: "We are delighted to bring this major new funding option forward to the US housing sector." Sanctuary owns more than 19,000 houses and flats.

Housing associations, which provide low-cost rented accommodation or home-ownership have grown significantly since the mid-1970s and now control about 4 per cent of the UK's housing stock.

The government reduced support in 1988 – grants now account for only 50 per cent of annual capital funding – and associations have been active borrowers in UK markets.

Funding has sometimes been both expensive and difficult in the UK, prompting associations to look elsewhere.

Mr David Knowlton, director of finance at Sanctuary, said: "A number of associations have been waiting for somebody to dip their toe in the water. This opens up the market for other associations."

Mr Charles Arbuthnot of Hambros said the funds, repayable over 17 years, were obtained at a cost of 120 basis points – a basis point is one hundredth of a percentage point – over the equivalent US treasury bond rate.

Mr Arbuthnot said the proceeds were swapped into sterling, with the overall cost secured at a "competitive rate". Exact terms were not disclosed.

The funds, in common with other loans, will be repaid from Sanctuary's rental income of about £30m a year.

The Housing Corporation, which funds and monitors the work of housing associations, said: "There has been nothing like this in the housing association sector before. It is innovative and unique."

More UK News, Page 13

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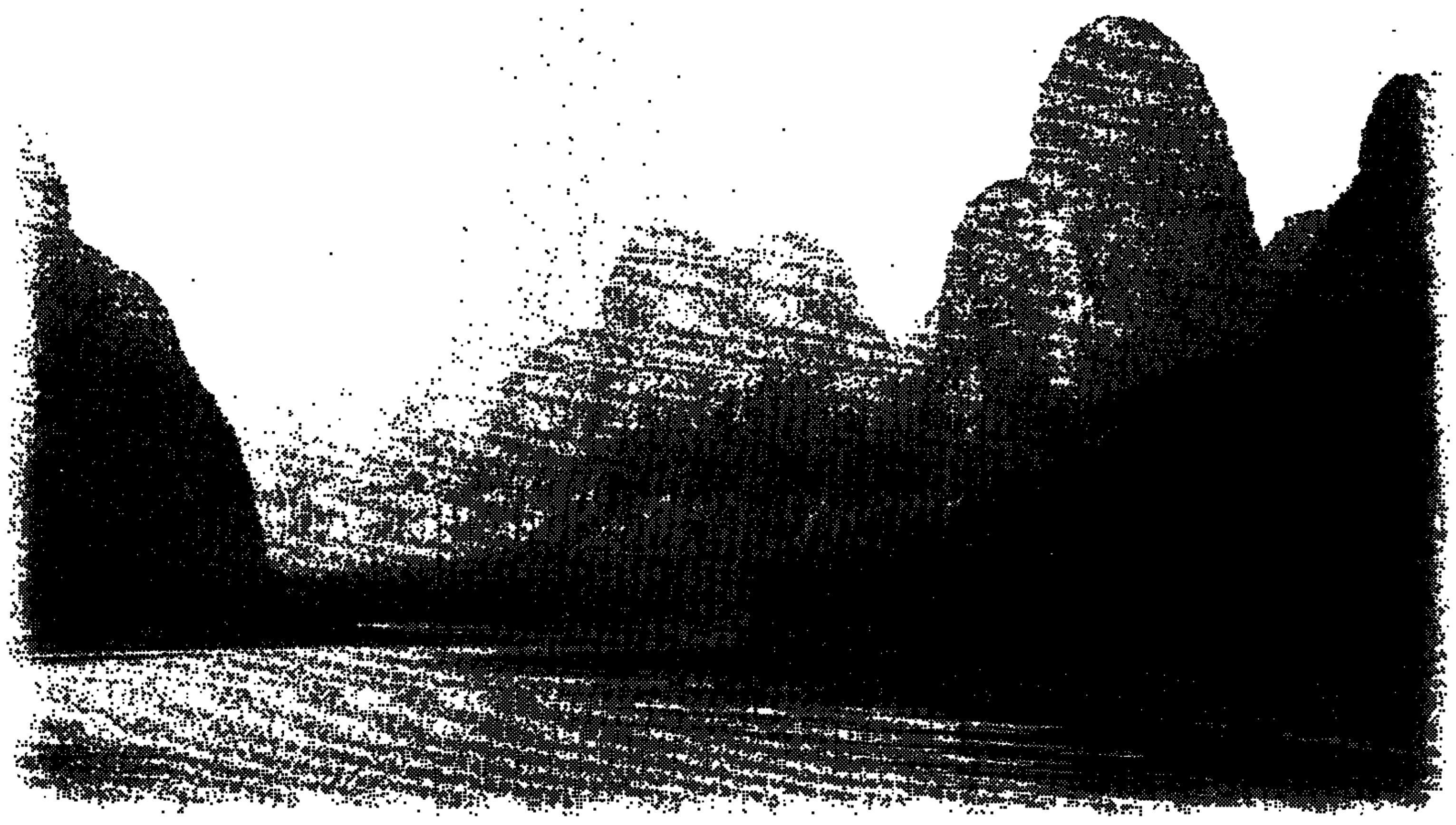
Astronomical cost has kept the future of personal communications up in the air.

We've just brought it down to Earth.

Today's market clamors for truly portable, global personal communications. But the astronomical costs of building, launching, operating and maintaining such a system – costs that will ultimately come out of the consumer's pocket – have remained dauntingly high. Until today. Because today we launch the Odyssey™ system. In a world in which most people lack access to even basic telephone service, this satellite-based mobile communication system will provide convenient, effective, consistent communications to subscribers around the globe. And it will do so at a price that compares favorably with cellular service. Moreover, Odyssey's overall life cycle cost will be substantially lower than that of any low-earth orbit (LEO) voice communication system.*

Simpler technology and faster start-up are scheduled to bring the Odyssey system into service within five years. Superior service and minimal user cost will attract subscribers worldwide.



MEO satellites are more reliable, easier to launch and need fewer ground stations with less complicated software than do LEO systems. It adds up to rapid system start-up and the lowest overall operating and end-user costs.

Even in remote corners of the world, Odyssey will recognize your handset and connect it directly with a satellite. Hand-held portability and cellular-style pricing will make it a practical, realistic solution for personal communications.

AUGMENTING EXISTING NETWORKS TO TAKE YOU BEYOND

Odyssey will be made available through your cellular carrier. In areas served by cellular and public switched telephone networks, Odyssey will augment service, providing connections through existing systems, regardless of regional or carrier compatibility. Where terrestrial service is absent – or interrupted – your handset will link you directly to an Odyssey satellite. The switch in mode will be transparent, providing you with seamless, high-quality communications.

THE OPTIMUM ORBIT FOR MINIMUM SUBSCRIBER COST

Odyssey consists of a constellation of 12 satellites that will operate at medium-earth orbit (MEO) for simultaneous multi-regional service to users around the world. The system will provide flexible dual-satellite coverage and double the service capacity to major markets.

The advantages of a MEO system are manifold. Sound quality and continuity of service are greatly improved. Start-up, operating and life cycle costs are dramatically lower than those of other satellite-based communication systems. And the investment required on the part of the end-user, both in equipment and service, is minimal.

A JOINT VENTURE OF TRW AND TELEGLOBE

TRW Inc. is a global leader in advanced electronics and space systems. For more than three decades, the company has stood at the forefront of space communications, enjoying a worldwide reputation built on innovation, reliability and technical excellence. The company has built and launched more than 185 satellites, many of which are in use today.

Teleglobe Inc., through its subsidiaries, is one of North America's foremost intercontinental telecommunications carriers and operates a vast, global digital network. Respected for its entrepreneurship and ingenuity, Teleglobe is a quickly emerging leader in the global mobile arena.

Together, TRW and Teleglobe create the driving force behind Odyssey.

At MEO altitude, the voice delay and echo of geostationary (GEO) satellite systems are not apparent. MEO's higher line-of-sight elevation angles minimize the shadowing effect of tall buildings and other obstacles that interrupts LEO and cellular systems.

* "A Reevaluation of Selected Mobile Satellite Communications Systems: Ellipso, Globalstar, Iridium and Odyssey," 1994, The Mitre Corporation

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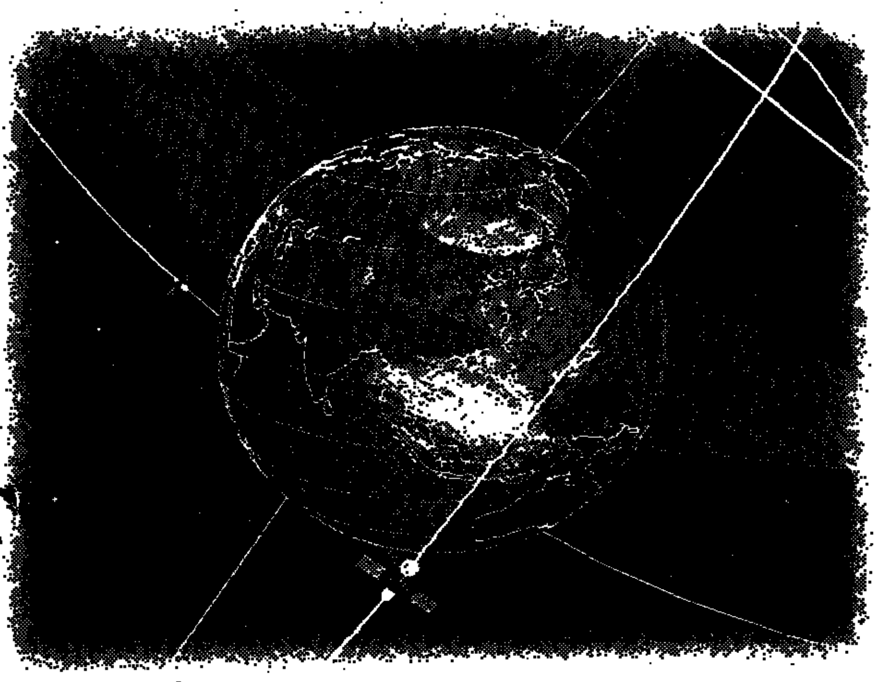
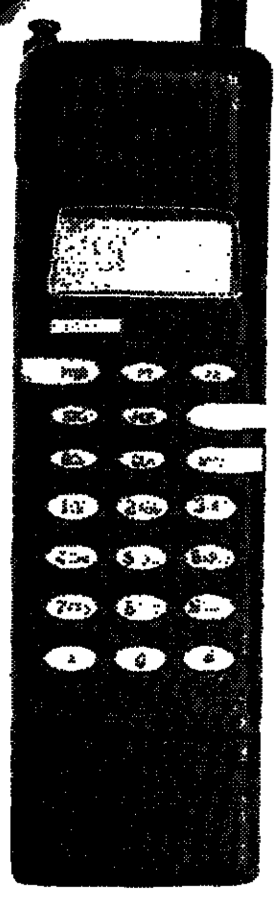
Directed antenna coverage concentrates service on land masses worldwide. Dual-satellite coverage provides even greater assurance of reliable communications.





Essentially a palm-sized earth station, the Odyssey handset will operate in both satellite and cellular modes. Its open specifications will be available to multiple manufacturers.

DIRECTED COVERAGE FOR MAXIMUM EFFICIENCY

An important characteristic of the Odyssey system is its use of directed coverage to serve the Earth's land masses and keep users "in sight." If you've ever had a cellular call interrupted at a crucial moment, you can appreciate the value of such a feature. Directed coverage will also give Odyssey the unique ability to focus service where there is the greatest demand, making far more efficient use of system capacity, a fact that translates into lower cost to the user.

MEO: THE COST-EFFECTIVE, HIGH-PERFORMANCE ORBIT

CHARACTERISTICS	LEO	MEO	GEO
Space Segment Cost	Highest	Lowest	Medium
Satellite Lifetime, Years	3-7	10-15	10-15
Terrestrial Gateway Cost	Highest	Medium	Lowest
Hand-held	Yes	Yes	No
Local Time Delay	Imperceptible	Imperceptible	Poor
Elevation Angles	Poor	Best	Good
Operations	Complex	Medium	Simplest
Call Handover	Frequent	Infrequent	None
Building Penetration	Limited	Limited	None
Phased Start-up	No	Yes	Yes
Development Time	Long	Short	Long
Deployment Time	Long	Medium	Short
Technology Risk	High	Low	Medium

THE BEST VALUE FOR THE USER

Market demand for personal communications is growing furiously, outstripping all predictions and fueling many telecommunication concepts. But Odyssey is not a concept. It is a planned system, scheduled to enter global service in 1999, before any other.

Basic system design for Odyssey is complete and licensing authority is expected in early 1995. Moreover, unlike other MEO systems, Odyssey will use frequencies already allocated for this type of service and components derived from proven TRW technology.

The initial start-up costs for the Odyssey system will be 60 percent lower than those for the two other major systems included in a recent study.* And Odyssey's constellation price will be fixed. Estimating over a 10-year period, replacement satellites for the other systems evaluated will give Odyssey an even more dramatic cost advantage. Just as importantly, subscriber projections indicate that Odyssey will offer the best value for the end-user.

Today, TRW and Teleglobe forge a new alliance to launch Odyssey. For more information, please contact:

North America & South America		
	(New York)	Tel.: 212 903 4267
Europe	(London)	Tel.: 081 247 0123
Asia	(Hong Kong)	Tel.: 852 845 1008

ODYSSEY

the adventure is just beginning

NEWS: UK

Radioactive waste disposal laboratory recommended

By Clive Cookson, Science Editor

A study by Britain's senior scientific body has recommended that a rock laboratory – 650 metres underground – should be built as soon as possible to establish whether the Sellafield area of Cumbria in northern England is suitable for the deep disposal of radioactive wastes.

The Royal Society report on the activities of UK Nirex, the nuclear industry's waste disposal company, was published yesterday.

"The Society retains an open mind on whether Sellafield can meet the safety criteria for a UK deep repository," the report, which was commissioned by Nirex, concluded.

If the site does turn out to be suitable, the Royal Society said, the nuclear industry should consider depositing its most radioactive "high level waste" there, as well as the low and intermediate level wastes Nirex is currently considering.

Nirex itself moved quickly yesterday to distance itself from that proposal, aware that it could inflame public opposition to the project. "Nirex has no remit for high level waste and the repository is not being designed to accept it," the company said. "High level waste needs 50 years to cool before disposal."

The £120m rock laboratory would help to establish whether the area's geology – particularly the flow of water underground – was suitable for keeping radioactive materials isolated from the environment for tens of thousands of years.

Sir Alan Muir Wood, the consulting engineer who chaired the Royal Society study group, conceded that Nirex appeared to have chosen Sellafield for political reasons, because it was already a nuclear site. "It is unlikely that Sellafield would have been first choice on geological features alone," he said. "But it does not have to be the best possible site so long as it passes certain tests."

The report recommends that the repository should be built in two stages. The first would be for short-lived wastes whose radioactivity would die away within a few hundred years.

The second stage would be an extension into deeper geological strata – below 1,000 metres – where there is less risk of radioactivity reaching the surface. Long-lived wastes would be stored there.

The environmental groups, Greenpeace and Friends of the Earth, both said that the Royal Society's recommendations on the rock laboratory and high level wastes could not be justified by the scientific evidence.

World wide plans for underground storage of intermediate and high level radioactive waste:

- UK: Some 27 per cent of UK's electricity produced by 35 reactors during 1993. Site in Cumbria close to Sellafield identified for underground repository to take mostly intermediate level waste over 50 years. Repository due to be completed in 2010.
- US: 20 per cent of electricity produced by 110 licensed reactors. Site identified under Yucca Mountain, Nevada, for deep level repository. Construction of underground laboratory already under way.
- GERMANY: 34 per cent of electricity from 19 nuclear plants. Two sites being considered for repositories at a former iron ore mine at Konrad and a site at Gorleben, both in Lower Saxony. An abandoned salt mine at Bartensleben in eastern Germany has been used since 1981 for low and intermediate level waste.
- FRANCE: 78 per cent of electricity from 58 reactors in 1993. Two sites expected to be short-listed for potential underground repository for long-lived waste.
- JAPAN: 31 per cent of electricity produced by 48 nuclear plants in 1993. Power Reactor Fuel Development Corporation (PNC) plans to construct underground lab at Honrobe on the island of Hokkaido to study disposal of high level waste in sedimentary rock.
- SWEDEN: decided in 1980 to phase out by 2010 all nuclear power stations which currently produce about half of the country's electricity. Exact timetable still the be established. Low and intermediate level waste is stored underground near the Forsmark plant, 50 metres below the Baltic Sea bed. Investigations continuing to identify site for high-level waste.

Tunnelling a way to solving one of the world's hot issues

Andrew Taylor on problems to be faced in the construction of a waste disposal research facility

Excavating a tunnel is risky enough at the best of times – as engineers involved in the collapse under Heathrow airport will attest – but to construct caverns under Cumbria to store some of the world's most deadly materials represents a huge engineering task.

The problem of how to keep secure long-lived radioactive waste from nuclear power stations is taxing the construction ingenuity of many nations. Political skills may also be required to persuade communities to accept the development of deep underground structures which will need to remain safe for hundreds of thousands of years.

In the UK the task falls to Nirex, which is jointly owned by British Nuclear Fuels, Nuclear Electric, the UK Atomic Energy Authority and Scottish Nuclear. The company, in which the government holds a golden share, has spent £50m on investigating 500 possible sites for a repository in the UK.

The choice has been narrowed down to 2 sq km of land beneath Longlands Farm, beside the Sellafield nuclear reprocessing works in Cumbria, which produces about 60 per cent of the country's intermediate-level waste.

An alternative site was shortlisted, close to Dounreay nuclear power stations in Caithness, but was rejected because of cost and the potential risk of transporting waste over long distances to such a remote site.

A final decision on whether to go ahead at Sellafield will depend on the outcome of some of the most intensive and costly geological and engineering studies conducted in this country.

By the time construction is due to start in 2005, Nirex expects to have spent close to £1bn and 18 years just on design and planning. A public inquiry still has to be held into the project expected to cost £2bn in total.

A further £100m has been spent on preliminary investigations. This has included drilling 20 bore holes up to 2km deep.

Scientists have also been investigating the gravitational fields of various rock outcrops and conducting comprehensive seismic and aero-magnetic tests to help determine likely ground and water movements during and after excavation.

Engineers will have to take into account the possible effects of global warming as well as predictions that an Ice Age could return to Cumbria during the next 10,000 years.

Their next step will be to build a £120m underground laboratory to determine more precisely how rocks, laid down 470m years ago, may respond to large-scale excavation. Some 1,200 metres of tunnels are due to be dug 700 metres below the surface to create the test facility.

A planning application to build the "rock characterisation facility" was submitted to Cumbria County Council this year. Engineers may have to freeze surface sandstones to prevent water entering access shafts during construction, said Nirex.

The test facility – and ultimately the repository itself – will be built in dense volcanic rock underlying the sandstone. The volcanic rocks, equivalent to a medium-strength granite, allow very little water to permeate as minerals washed out of the rock, in hundreds of tiny fissures, form a natural grout.

This is important as water seeping into the caverns could carry radioactivity back to the surface unless precautions are taken.

Intermediate-level waste, including cladding from spent nuclear fuel, filters, worn-out plant and equipment which has been in contact with radioactive materials as well as isotopes used in medical treatment will be placed in steel containers.

These will be filled to the brim with cement before being stored underground.

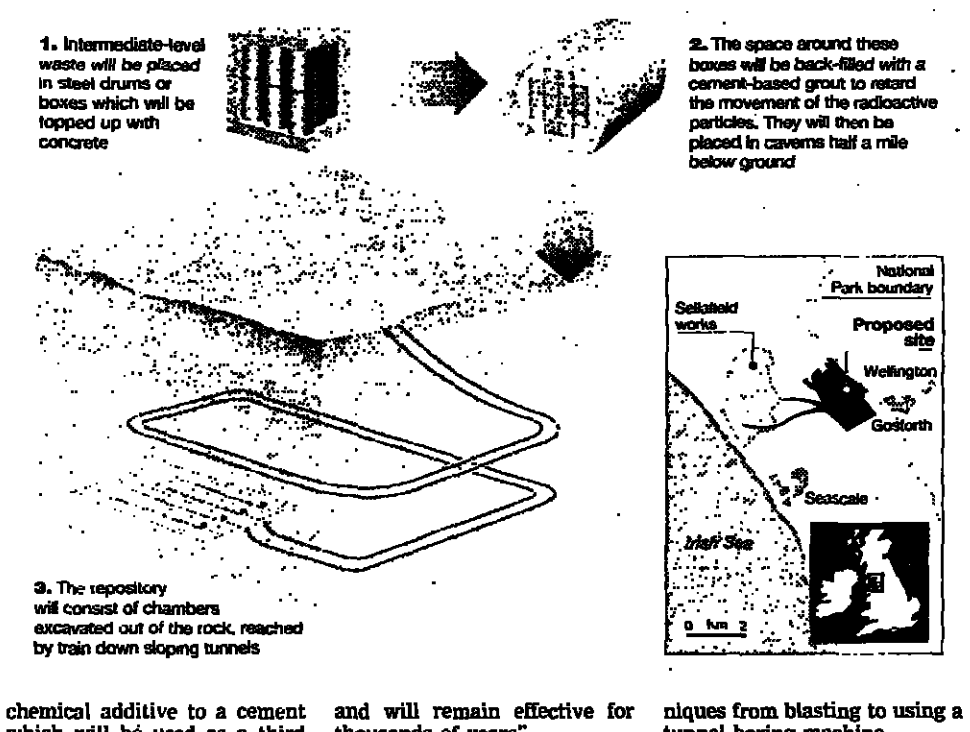
The steel drums and boxes will eventually corrode, said Nirex, which has developed a chemical additive to a cement which will be used as a third layer of protection, completely filling in around the steel containers.

Dr Alan Hooper, Nirex science manager, said the company is seeking a patent for the cement which is "designed to inhibit radioactive particles from dissolving in the water and will remain effective for thousands of years".

Nirex is working with its French and Swedish equivalents ANDRA and SKB on a £1m project to test methods of construction by building two tunnels five metres in tunnels, 430 metres below ground, at Aspö in Sweden. These will be excavated by various techniques from blasting to using a tunnel boring machine.

Mr Brendan Breen, Nirex's mining manager, who has previously worked in the UK, Canada, Italy and France, says: "I have never worked on a project where the planning has been so meticulous but the consequences of failure is so horrendous."

Underground storage: radioactive waste plans



Channel rail link bill set for parliament next week

By Charles Batchelor, Transport Correspondent

Draft legislation to allow construction of a £2.7bn rail link between the Channel tunnel and London is expected to be put to the British parliament on November 24.

The rail link bill will be one of the first pieces of legislation considered in the new session of parliament, which starts today with the Queen's Speech. It will mark the start of a parliamentary process expected to take up to two years.

Provided there are no unforseen difficulties construction should start in early 1997 for completion in 2002. The fast rail link will cut 30 minutes off the three-hour journey between London and Paris.

The route, which passes under the Thames near Gravesend before crossing Stratford and east London to St Pancras station, has been decided – although small variations are allowed within a designated "envelope."

Even so, the legislation is expected to prompt several thousand protests from residents and other interested parties along the 68-mile route.

The bill takes the form of a "hybrid bill" under Commons procedures covering legislation involving both public and private interests. It is expected to be given its first reading on Thursday of next week. It could receive its second reading by Christmas before going into committee for detailed consideration. Protestors will be able to petition the select committee which considers the bill.

In parallel with the passage of the bill through parliament the department of transport will select a consortium to build and operate the rail link. Four consortia were shortlisted in August. They are Eurorail, including BICC and GEC; Hochtief and Costain; London and Continental including Blue Circle, National Express and Virgin; and Union Link, including Holzmann, Mowlem and Taylor Woodrow.

Bids must be made by March 14 and the government will decide on the winning consortium by late nest year.

The consortium which builds the route will be granted a 999-year lease to operate services.

Interactive TV trial delay

By Raymond Snoddy

British Telecommunications has delayed the start of trials for its interactive television project until the middle of next year to add a wider range of services than simply video-on-demand.

The 2,500-home trial will offer home shopping, banking and educational programming as well as the film and television service that had been scheduled to start in the spring.

Shopping-on-demand will be offered under individual brands. Thomas Cook will offer holidays and travel, Sears fashion and sporting goods and W.H. Smith books, compact discs and videos. A grocery service will be developed by Safeway stores.

Mr Rupert Gavin, director of BT's Information Communication and Entertainment programme said yesterday: "In order to test the capability of interactive TV, it is important to offer consumers a wide range of services."

Technical trials in 60 homes showed it was possible to send good quality pictures in digital form down ordinary telephone lines at the same time as the lines were being used for a telephone conversation.

BT, which has a telephone network linking 20m homes, found the technology had a wider than expected range. This suggested 92 per cent of the network could handle interactive services.

The first commercial trial is likely to cost more than £30m. BT should have enough information by the end of next year to decide whether to roll out the service across the UK, which could cost several billion pounds.

BT wants to find out what services people are prepared to pay for and what is the best method of charging.

The commercial trial will include monthly subscriptions, paying for individual items and a mixture of the two.

MANAGEMENT

'Impressario' Greg Garrison solved a dilemma by creating a virtual organisation that uses consultants in an innovative way

Cherry-picking top talent

Reuters Holdings has taken the 'virtual' office concept beyond its usual boundaries, finds **Desmond Dearlove**

Just a few yards off Fleet Street on the first floor of the London headquarters of Reuters Holdings, one of the most far-reaching examples of "virtual business practice" is unfolding.

It represents a break with traditional business structures and pushes at the frontiers of current management thinking – it could radically redefine the nature of organisations.

In the UK, the concept of the "virtual organisation" has been largely technology-driven, with a number of companies using networked computer terminals to create an IT infrastructure – or "virtual office" – which exists independently of the physical location of employees. IBM, Mercury Communications and Digital Equipment, for example, have all experimented with this sort of model, using electronic-mail and other IT tools to enable employees working remotely to plug into virtual offices.

However, commentators in the US claim that the virtual concept can be taken further. Tom Peters, in particular, argues that an important strength of software companies in California's Silicon Valley lies in a complex web of relationships that promotes multiple collaborations. This, he says, results in amorphous business groupings that can reconfigure to create new virtual organisations without the pain and expense of restructuring or redundancies.

It is this model that inspired Greg Garrison, director of the Reuters usability group, to create what is probably one of the first truly virtual organisation in Europe; one which spans two continents and incorporates people from 12 other companies – including Microsoft, Logica and Admiral Computing.

Garrison's achievement has brought a ringing endorsement from Peters who described him in the September issue of his newsletter On Achieving Excellence as "an impresario, creating a new way of doing business as he goes".

In early 1993, Garrison was drafted into the Reuters London headquarters from its Asia Pacific office to set up the usability group. His brief was to achieve a breakthrough in the user-friendliness of the financial information services provided by Reuters to international bankers, brokers and dealers in 150 countries.

The aim was to seize competitive advantage through the creation of highly intuitive user interfaces which accurately matched the delivery of information with the way customers in dealing room environments wanted to work. With keen competition from other suppliers, including Bloombergs Financial Services and Dow Jones Telerate, Reuters' leadership of the highly lucrative market for real-time information was at stake.

Garrison's start-up plan for the usability operation called for a staff of 24 full-time Reuters employees specialising in human-computer interface design. But a combination of hiring controls and the company's reluctance to employ permanently specialists with the esoteric skills required meant Garrison was allowed only two of the 24 staff requested. Board level commitment to the initiative, however, ensured a generous budget to fund the staffing requirements from outside.

Garrison's dilemma was how to assemble the team of highly specialised IT experts. The traditional method was to outsource. But an initial evaluation of the sorts of skills required – ergonomics, software prototyping, interface graphic design and artificial intelligence – convinced him that no single consultancy in the UK could provide all the solutions.

In response he invented a "virtual" organisation, cherry-picking the top talent from 12 companies around the world.

"I needed an organisation which would be a constantly evolving and changing team of experts – some of whom would be from other companies, some of whom would be independent – but most of whom would not be permanent Reuters' staff," Garrison explains. "I wanted to employ them very flexibly on a project-by-project basis when and as I needed them."

Using the promise of substantial contracts as a carrot, Garrison was able to convince the consultancies to take the unusual step of signing non-disclosure contracts, not just with Reuters but with each other. This laid the foundation for a collaborative environment.

What he now has at his disposal is an extended virtual team of 50 people, consisting of a core group of between 12 and 24 who work on-site at the Reuters' office in London. Some individuals contribute from other UK locations, and consultants based in the US and Europe participate in the team remotely using E-mail, fax and telephone.

Garrison operates his virtual organisation as a "just-in-time" skills pool, which shrinks and grows – and can even change its skills composition – to match the workload. When not required, participating consultants return to their own companies.

Such an arrangement does not come cheap, however. Team members are charged to Reuters on a day rate, typically between £300 and £500 per person. But Garrison calculates that savings on recruitment costs and staff benefits including holidays, sick leave and pensions mean that he pays a premium of only 8 per cent to 15 per cent above the market rate for his virtual employees. He believes that the calibre of the staff alone justifies the premium. It also enables him to start and stop projects almost instantaneously.

Along with the expertise they bring, each of the 50 or so consultants also brings access to the skills pool of the organisation. In one case, by accessing the Microsoft product research laboratories in the US, team members from Microsoft were able to provide a software tool that Reuters needed but which wasn't available in the marketplace.

Reuters has just installed state-of-the-art usability testing laboratories to enable Garrison to continue the virtual experiment. This suggests that so far at least the virtual concept is delivering tangible results.

A fresh perspective on training

Lisa Wood looks at an innovative Tec that has created real accountability to business

Public services management

Hold a contest for the most innovative Training and Enterprise Council in England and Wales, and the Tec for South and East Cheshire would almost certainly take the prize.

The Tec has a long list of "firsts" to its name, including being among the first to agree a merger with its local chamber of commerce. It has also set up a membership scheme that has created real accountability to local businesses and built strong links with employers.

At the core of South and East Cheshire's activities is a philosophy of working as closely as possible with its local community. "We approached everything we did from that perspective," says 42-year-old Richard Guy, the innovative chief executive who joined the Tec from the Department of Employment, but who recently took up a new post in Manchester.

Tecs, numbering 82 in England and Wales, are private companies established by the government in 1991 to drive a skills revolution in the UK. They receive nearly £2bn a year to run government-funded training programmes for young people and the unemployed, as well as working with other partners, such as local authorities and chambers of commerce, to improve enterprise activities in their areas.

At first, many Tecs found it easiest to continue running training programmes in the same way as the civil servants who preceded them. This approach usually guaranteed a reasonable place on the government's league tables, which measure a narrow range of Tecs' activities and exclude most of their economic development work.

South and East Cheshire, however, has taken a more entrepreneurial approach. On Youth Training, for example, Guy jettisoned the system of using managing agents to place young people on employers' training schemes. Such intermediaries he says deprived him of a point of contact with employers necessary to integrate YT operations effectively in the Tec's other work.

Richard Guy contracts directly with employers to provide training places

So Guy started to contract directly with some 800 employers to provide training places. One benefit has been that the Tec has one of the highest levels of young people on YT working as employees. Where managing agents are used, they normally have non-employed status which means the young person is not guaranteed a job at the end of training.

As important, the switch has allowed Guy to involve local employers much more in the work of the Tec. They are invited to join a business membership scheme, which also gives joint membership with the local chamber of commerce. Members total 2,000, about 55 per cent of employers with five or more employees in the area. They are able to attend the annual meeting, cast votes on key policy issues and elect board members.

The scheme, probably the best developed of the handful set up by Tecs, offers direct accountability to local businesses that is often absent elsewhere.

The membership scheme also offers special discounts for business support services offered through Business Link, the "one-stop shop" the Tec operates with other partners on behalf of the Department of Trade and Industry.

Each company joining the Tec, or Business Link, with more than five employees is allotted a personal business adviser.

Guy's strategy has its detractors. Some critics point to the Tec's comparatively large staff of 120, 50 of whom are engaged in Business Link. They claim that Tecs should not be involved in the direct delivery of services, not least because it can be more expensive than sub-contracting.

Guy says: "We do sub-contract all things that are specialised, and that accounts for 75 per cent of our budget. This does lead to savings. But the direct service is important because we can pull firms together and sub-contract very effectively on behalf of the group."

The strategy has been well-received among its customers in Cheshire. "The Tec is a good sounding board for impartial advice," says Garry Crosby, managing director of Alert Reactive System, an 18-month-old building management contracting company in Knutsford. "I can't praise my business adviser at the Tec enough. The number of times that I have picked up the phone in desperation. It can be a lonely job setting up a business after working for a big company which took care of all the support systems like lawyers and accountants."

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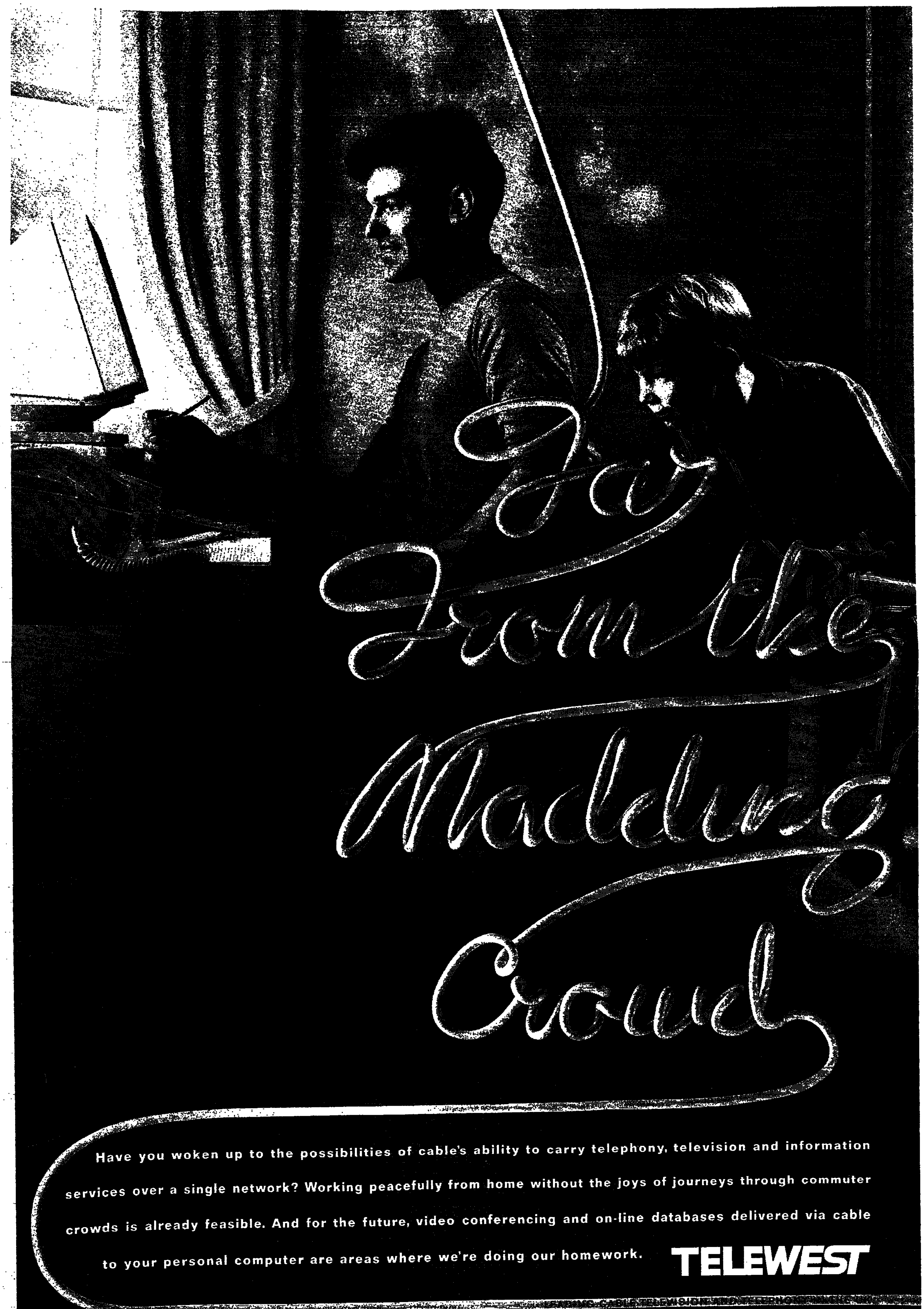


BUSINESS AND THE ENVIRONMENT

US staff biking to work

US workers who commute by bicycle are becoming pampered employees at many companies. Nike, the Oregon-based sports shoe manufacturer, gives workers a $1 credit at the company's cafeteria, fitness centre or store if they pedal to work.

At Fleetwood, a maker of motor homes in Southern California, biking employees enjoy mini-garages for storage, a free repair facility, showers and changing rooms, the free loan of a bicycle, and a safety kit. USAA, an insurance group in San Antonio, Texas, encourages workers to form bicycling clubs to articulate needs to management and to help riders devise the best routes to the office.

The bike-to-work movement is being pushed along by government initiatives. Next year, Oregon will enforce a law that requires all businesses in the state to provide covered storage spaces for customers and workers. Massachusetts plans to spend $6m (£3.6m) over the next few years to adapt roads to bicycle use.

Under Clean Air legislation passed during the Bush administration, every state must present a plan to encourage bicycle use by the end of 1995.

"San Antonio has launched a big bicycle-mobility plan because they are on the edge of non-attainment of the Clean Air Act standards," says Andrew Clarke, deputy director of the Bicycle Federation of America. "If they do not take the initiative themselves, the federal government will force them to."

Biking is an increasingly popular way to reduce air pollution, say politicians, because it costs relatively little compared with public transport improvements.

Refitting roads to accommodate bicycles does raise the ire of many, though. In densely populated cities, it often means eliminating traffic lanes, slowing the flow for drivers. And by providing shelters for bicycles, businesses may have to cut the parking spaces available for cars.

Victoria Griffith

An absence of benchmarking has undermined reporting, but **Peter Knight** says the City could provide an impetus

Second push for green reporting

Environmental reporting is a waste of time and money. This could be the view of the vast majority of companies that steadfastly ignore demands to publish regular voluntary reports on their emissions, waste, and efforts to reduce their impact on the environment.

After a spate of reports in the early 1990s from blue-chip companies in western Europe and North America, environmental reporting appears to be at a crossroads. Those companies that have reported – about 150 worldwide – are wondering whether it is worth continuing. The non-reporters appear to be hoping that reporting is a dying fashion.

"Reporting by some companies spurs on competition among others. But a diversity of styles and lack of conformity has undermined this competition because there is no benchmarking. And, of course, those companies which choose not to report are deeply comfortable with this," says John Elkington, a director of SustainAbility, a UK consultancy advising the United Nations Environment Programme on reporting.

Unep is trying to encourage small- and medium-sized companies throughout the world to report. Such companies produce most of the world's pollution, but because of their size and low visibility they are less affected by public pressure. Unep's underfunded campaign is only beginning, but the chances of success look slim unless there is renewed pressure to report.

The future of voluntary reporting is uncertain, for three reasons. First, those companies that have so far reported have received, at best, a muted response from the audience that was calling for voluntary reporting, mainly campaign groups.

Second, recession and the rapid slide of the environment down the political agenda have reduced the pressure to report. Only businesses in those sectors whose record is constantly under public scrutiny, such as water, chemicals and energy, feel the need to report.

Third, information contained in the vast majority of reports lacks credibility and is of little use to most audiences, such as investors.

"Environment reporting is still the product of the public relations industry," says Clive Bates, a campaigner at Greenpeace UK.

"Investors, employees and the public need the unexpurgated environmental facts just as much as they need to see the mandatory financial accounts," he adds.

Greenpeace is not alone in its criticism of the value of the information found in environmental reports. Bill Dale, environment analyst at S.G. Warburg, says the City finds it difficult to identify potential environmental risk because of the poor quality of information made available by companies.

"Although more data are now being revealed in annual reports there is a high degree of discretion in what is reported," he said.

It seems unlikely that companies will ever be forthcoming with all the facts until they are forced. Although there have been hints that the European Union could legislate on the issue, this now seems unlikely.

The EU's voluntary scheme, called Eco Management and Audit Scheme, is up and running but has yet to fulfil one of its primary goals – to encourage companies to conform to its standards and so gain a competitive advantage. And Emas is only aimed at very large industrial operations.

The general trend in the EU's attitude towards the environment is away from prescriptive legislation and towards a greater use of voluntary and fiscal measures to encourage improved environmental performance.

This does not mean, however, that environmental reporting is off the agenda. Elkington sits on the EU's consultative forum on the environment, a group of business people and representatives from consumer groups, local government, trades unions and non-governmental groups. "In our discussions, reporting is seen as absolutely fundamental," he said.

And companies that continue to report say they find benefits other than public recognition for their efforts. The process forces them to set up the systems to gather information about their products and processes. This enables them to manage their businesses better.

"Our report gives us the opportunity to provide concise information on our environmental performance to outsiders and employees. We find it a useful communications tool," says Richard Robson, environment communications manager at ICI.

Thorn EMI has just produced a highly detailed report on its performance and the Kingfisher retailing group, which includes Comet, B&Q, Superdrug and Woolworths, is expected to publish its first environmental report this year.

"Reporting is a primary strategic communications tool," says Elkington. "A prime example here is the success of Dow Europe. Because it does not have an annual report for the European business its their environmental report is a window through which people can view Dow."

But in spite of such advantages, it appears that many companies will not take environmental reporting seriously unless they are put under more pressure.

Early indications are that in the absence of any official initiative, the financial community could provide the impetus.

Asbestosis claims and concerns about possible effects of climate change on catastrophic property casualty exposures have increased the world insurance industry's interest in the environment. Banks are paying more attention to their

If the financial community is to convert its concerns into action it needs better information

exposure to environmental risk and investors are starting to show concern about risks posed by companies with poor environmental records.

But if the financial community is to convert its concerns into action it needs better information. Dale says: "Most of the information, including specific quantitative detail, is arbitrary and self-determined. In very few cases is it possible to draw direct conclusions as to the implications for revenues and profit margins. While investors wait for better standards of reporting they will be more impressed by those companies which publish separate reports on their environmental performance. Particular credit will be given to information that is independently audited or verified."

Why markets are ignoring the issues

Most City analysts ignore environmental pressures on companies because they cannot price the impact. Half do not trust information published by companies on their environmental performance and two-thirds think the current standard of reporting is inadequate.

These are some of the findings of a survey of 85 top Extel Financial-rated analysts working in 28 sectors. It was conducted by researchers NOP on behalf of the charity Business in the Environment (BiE) and funded by Extel Financial.

Most analysts feel the bulk of environmental issues are moral or emotional and are therefore irrelevant to their job of making rational assessments. Sixty-one per cent said the subject was of no interest to their clients, although a third had received requests from clients for more information, especially in the utilities and natural resources sectors.

Three-quarters of those surveyed do not see the environment as a competitive issue within the business sectors they cover, but most feel the environment will become more important in the next 10 years. Analysts under the age of 35 are better informed about environmental issues than their older colleagues.

Analysts thought that company-produced environmental performance reports should be externally verified to be credible.

Meanwhile, a separate report, sponsored by Greenpeace, suggests that investors do not take adequate account of environmental factors when valuing companies, at least in the carbon fuel sector, which includes coal, oil and gas.

The author Mark Mansley, an investment analyst, argues that the financial markets are underestimating the risk that global warming will lead to dramatic measures by government to curtail carbon fuel consumption. These measures could include carbon taxes and limits on demand.

"Climate change presents major *long-term risks to the carbon fuel industry*," he says. "These risks have not yet been adequately discounted by the financial markets. The risks increase the longer it takes to develop adequate policy responses to the threat of climate change."

Mansley says that most carbon fuel projects, being very large, take longer than 10 years to pay back, meaning their viability depends on events in the distant future. Typically, markets respond to events only as they become visible, and investors could not be certain that they could sell their stock once the risks of global warming began to materialise.

Until this discount had been made, investors should avoid heavy exposure to the oil, gas and coal sectors. *Mansley says* investors would do better to put their money in alternative energy companies because they offer greater growth prospects than carbon fuel industries. Diversification in this direction would also offset some of the risks of climate change.

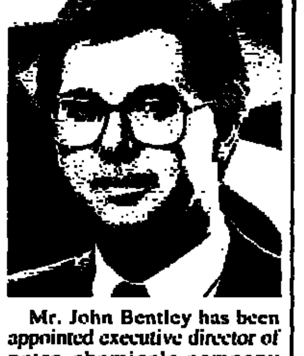
**City Analysts and the Environment: a survey of environmental attitudes in the City of London. Available from BiE, 8 Stratton Street, London W1X 5FD. Tel: 071-629-1600. Price £105.*

***The long-term financial risks to the carbon fuel industry from climate change. The Delphi Group. Tel: 071-404 2964; Fax: 404 0326*

David Lascelles
Peter Knight

Sir Archibald Forster has been appointed non-executive director of petro-chemicals company Engen Ltd, South Africa.

Previously chief executive of Esso UK until 1993, Sir Archibald is currently a director of Midland Bank PLC, Trafalgar House PLC, United Newspapers PLC and Montague Private Equity Ltd. He is a member of the Monopolies and Mergers Commission and was knighted in 1987.



Mr. John Bentley has been appointed non-executive director of petro-chemicals company Engen Ltd, South Africa.

A former director of Gencor (UK) Ltd and managing director of Sao Bento Mineracao SA in Brazil, Bentley has headed up Engen's Exploration and Production division since 1993.

PEOPLE

Cockshaw becomes chief exec – again

Sir Alan Cockshaw, 57, (far right), chairman of Amec, is to take on the role of chief executive following the announcement that John Bateson, 53, (right) is to take early retirement after seven years at the helm of the engineering and construction group.

Bateson, who has worked for the group for 25 years, will retire at the end of March 1995. Sir Alan, who has worked in tandem with Bateson for over 20 years, said yesterday that Bateson had always said he wanted to go in 1995.

Sir Alan characterised Bateson's departure as nothing more than a "straightforward retirement". He said he was "very sorry" to lose Bateson but understood that he wanted to devote more time to his family's caravan park business.

Amec said that Bateson will not receive any special compensation when he goes and he will continue to assist the group on a number of specific matters.

Amec has been struggling to recover from the recession and this year's estimated profits of around £25m are still going to be more than two thirds below the figure of five years ago. The news of Bateson's departure comes only three months after the replacement of Dennis Clark, head of Amec's process and energy business, and is likely to increase City concerns about Sir Alan's autocratic management style and the question of management succession.

Sir Alan, who was Amec's chief executive between 1984 and 1988, stressed yesterday that he did not plan to take on the chief executive's job permanently. He expected to pick a new chief executive within the next year and said that he very much hoped that Amec's next chief would come from inside the group.

Keith Humphreys, who is chairman of the UK arm of Rhône-Poulenc and joined Amec's board last year, has been appointed non-executive deputy chairman of Amec. Meanwhile, George Payne, who replaced Clark and heads the process and energy sector, has joined the board. *William Hall*

Non-executive directors

■ Andrew Simon (above), former executive chairman of Evode Group, at ASSOCIATED BRITISH PORTS.
■ Patrick Lupo, chairman and ceo of DHL Worldwide Express, at W.H. SMITH.
■ Paul Loach has resigned from the THROGMORTON TRUST and T.T. FINANCE.
■ John Ingleby has resigned from JAMES FINLAY and its subsidiaries.
■ John Walker at WARD HOLDINGS having ceased to be executive.
■ Patrick MacDougall, chairman of West Merchant Bank, and Roger Ferry, professor of environmental control and waste management, at NUCLEAR ELECTRIC.
■ Christopher Blae has retired from The ALLIANCE TRUST.
■ Harry Westropp, chairman *of Britton Group, as chairman* at ABACUS, on the retirement of Peter Grundy.
■ Andrew Davison, chairman of the Emerging Markets Country Investment Trust, and David Telling, chairman of Mitie Group, at BROOKS SERVICE GROUP.
■ Brian McGillivray has resigned from BUNZL.
■ Anthony Wright, chief executive of Birkby's Plastics, at JOHNSON & FIRTH BROWN.
■ Mike Townsend, finance director of Rolls-Royce, at NORTHERN ELECTRIC.
■ Roderick Paul, chief executive of Severn Trent, at The RUGBY GROUP.
■ John Lusher, retired Marks & Spencer director, at BRENT INTERNATIONAL.
■ Ray Horney, former chairman of Rayford Holdings and chairman of Jermyn Investment Co, and Philip Lovegrove, chairman of Associated British Engineering, as chairman at REGENT CORPORATION.
■ Julian Paul, former md of Guinness Mahon, and James Rowsell of James Capel, at TELE-CINE CELL GROUP.
■ Lord Stokes has resigned from GWR Group.
■ Trevor West, retired finance director of Y.J. Lovell, at AMEY HOLDINGS.
■ Michael Flinders at MMT *COMPUTING*.
■ Gerald Scanlan, retired deputy chairman of Allied Irish Banks, at FYFFES.

Changeover at Daiwa Europe

Nick Clegg, 58, one of many ex-Hill Samuel bankers scattered around the City, is retiring as co-chairman of Daiwa Europe, the European arm of the Japanese securities firm.

Daiwa Europe has grown rapidly since Clegg joined in 1986. Staff numbers in London have grown five-fold to 750, and the group's European business now employs over 1,000 people and is backed by £500m of capital. Clegg is giving up his full-time executive responsibilities at the end of the year but will remain chairman of Daiwa Europe Bank.

Alex Monnas, 43, (above), *another ex-Hill Samuel banker* who now heads Daiwa Europe's fixed income division, has been appointed deputy chief executive and will report to Ryonosuke Miyoshi, 50, chairman and chief executive of Daiwa Europe. Masayasu Ohi, 47, general manager of Daiwa Securities' international investment banking department in Tokyo, is moving to London to be managing director and president.

■ Brian Morton has been promoted to md of Newcastle Bank (Gibraltar), part of the NEWCASTLE BUILDING SOCIETY.
■ Jim Dannis, formerly a partner at Cleary Gottlich splitting his time between London and Moscow, has been appointed a director in SALOMON's London office to co-ordinate activities in the equity markets of Russia and the former Soviet Union.
■ Onno van den Broek, general manager of ING Bank International, has been appointed chairman and ceo of ING (UK) Capital in London. David Stuart, formerly director of market services at the London Clearing House, has been appointed operations director of ING Derivatives.
■ Adrian Warr, formerly treasurer at ING Bank, London, has been appointed treasury director of LEOPOLD JOSEPH & Sons in succession to Robert McIntyre.
■ Nigel Fletcher and *Jeffrey* Lawrence have been appointed directors of AMERICAN EXPRESS BANK; they both move from Merrill Lynch.

ARTS

Television/**Christopher Dunkley**

Getting to the heart of the matter

The most notable television event of the past took place on Sunday night at Sadler's Wells Theatre in London where a packed house watched a marvellously clear print of the 1924 movie epic *The Iron Horse*, John Ford's two-hour version of the construction of America's first trans-continental railroad "from sea to shining sea". Though it is 70 years old and silent, this archetypal western, which was accompanied by a new score for full orchestra, written and conducted by John Lanchbery, was one of the highlights of the London Film Festival. So in what sense was it a television event?

The story began 14 years ago when the British Film Institute and Thames Television presented Kevin Brownlow's superbly restored version of Abel Gance's 1927 silent masterpiece *Napoleon*. Thames TV paid for Carl Davis to write a new score which was played by the Wren Orchestra in the Empire Theatre, Leicester Square. The event began at 10.30 in the morning and ended at 5.30 when it seemed as though the applause would go on for ever. *I was not alone in asking when it would be* possible to repeat that astounding seven-hour experience, and in time further performances were given in Britain, France, and the US. Then Channel 4 *screened the* movie for a national audience in Britain.

Since then Kevin Brownlow and David Gill have continued their meticulous work on classics of the silent cinema. Thames TV maintained their support and encouraged Brownlow and Gill to make memorable documentary series about the early days of Hollywood, and, when Thames lost its broadcasting licence, Channel 4 took over the baton. Memorable restorations have included *The Thief Of Bagdad* and *The Wind*. British television is now seen as the driving force in the historic restoration of the silent cinema to its rightful place.

This latest offering, *The Iron Horse*, foreshadows most of Ford's later preoccupations: the frontier spirit, the renegade white man in league with evil redskins (as Brownlow warned Sunday's audience, there is *something here to offend practically everyone nowadays*), man braving a huge and dangerous landscape, the lone Pony Express rider in a mad gallop to catch the thundering train and gain a safe haven, the fight in the saloon. Today they may seem like clichés but not, surely, in 1924. The experience of watching this movie on television when Channel 4 transmits it nationally in 1995 will not be the same as watching it in a theatre with an orchestra, but it will be so much better than never seeing it at all.

The week's second most notable television event was also provided by Channel 4, this time in the *Without Walls* series which commissioning editor Waldemar Januszczak is steadily expanding from its original arts base into the widest conceivable – and admirably provocative – "culture" magazine. Last week the first half was devoted to a tough and sceptical reappraisal of Calcutta's angel of mercy in Christopher Hitchens' polemical item "Hell's Angel: Mother Teresa". Hitchens' argument is now widely known: that, although treated as a saint, Mother Teresa seems much given to fraternising with right wing extremists, dodgy when it comes to relieving the suffering of those in her care, and remarkably effective at increasing the misery of the world's poor by opposing birth control.

It was a brave broadcast because the hysterical *reaction from the huge* and influential religious lobby was wholly forseeable. Before this sort of programme can get on the air you have to have people throughout a broadcasting organisation (in this case from Chief Executive Michael Grade to producer Tariq Ali) who believe that freedom of speech means the freedom to say what the majority *do not* already believe. The last time this happened in television was when Hugh Greene ran the BBC, and there were ructions then, too.

This time Channel 4 rushed to give a voice to the religious lobby in *Right To Reply*, and chairman Roger Bolton sternly demanded to know of Hitchens and Januszczak where was the "balance" in their programme, for all the world as though he had missed the fact that theirs was the first attempt in years to counter the tons of unbalanced adulation weighing down the other side. Moreover, where was Bolton when we really needed him, during all those decades when religious proselytisers were pouring out their unbalanced programmes full of unsubstantiated stories about supernatural beings who would "save" us all? Indeed, since such programmes continue, why is Bolton not regularly issuing stern challenges to the people in dog collars to achieve balance, to bring in level headed rationalists alongside the preachers and happy clappers to remind viewers that the evidence for risings from the dead, the afterlife, holy ghosts and so on is precisely nil?

The third most notable television event of the week was ITV's *Open Fire*, a sort of drama-documentary ("based on the true story . . .") about a man named David Martin. Since he is now dead, having hanged himself in prison, most of us would probably never have heard of him had he not been the man whom the police thought they were shooting when they actually shot Stephen Waldorf as he sat in a yellow Mini in a London street in 1983. Anyone who knows even a little about the Waldorf affair must have asked himself "How did the police get themselves into such a state of panic that they pumped that many rounds into the wrong man?" By telling the story of Martin, writer/director Paul Greengrass has provided a credible answer to that question. It showed Martin as a violent, gun-toting, transvestite bank robber and expert lock picker who, understandably enough, terrified some of the policemen who were pursuing him.

Of course it is difficult to know whether Martin was really as startlingly good looking in drag as actor Rupert Graves made him. It is hard to know whether he really exulted in violence as was shown here, and hard to know what his sexual proclivities were, assuming he knew himself. But however questionable the details, *Open Fire* suggested one coherent and believable version of what could have happened. In the process it provided the opportunity for Graves and the remarkable Kate Hardie (*unforgettable as the* teenage runaway in *Safe*) to give outstanding performances as Martin and his girl friend Sue. *Open Fire* was almost certainly as close to the truth of 1983 as *Iron Horse* was to the truth of railroad building in the 1860s, at least in the sense of emotional truth – and that, surely, is largely what the Hitchens programme was about too.


The Waldorf affair: Rupert Graves as David Martin in 'Open Fire'

If you want to see a really sparkling first play, pick Nick Gross's *Peaches* at the Royal Court's Theatre *Upstairs*. This has authenticity written all over it, yet the touch remains light throughout. The background is the numerical explosion of Britain's student population. Here are semi-educated young people at university, at first just messing about, drinking and dancing, then ultimately *looking for jobs and a place* in the real world.

The university is Leeds, suitably far north, but still only a few hours drive from the seemingly magnetic pull of London.

Driving plays a large part in the piece. The scenes where students drive and talk in cars up and down the M1 are beautifully done – almost to the point where you think that *Peaches* might have been made for television. Yet this is the trick: the play is so well written and so well done that it works on stage.

In a succession of short scenes Grosso uses surtitles to indicate the location and the characters. Far from being trendy, the men are frankly reactionary. "Peaches" is the word for women which, as one of the men says, is what the male *students think about all the time*, even if they occasionally talk about something else. They regret that so many of the women have turned gay, vegetarian or vegan. One of the women may even have found a job on Channel 4.

Grosso writes without bias or preaching. He simply shows the students as they are. Some education has clearly rubbed off on them, though they try to conceal it. For instance: "Do you know Raymond Chandler?" "You mean the one who played for Fulham?" Or "what's that book about the future – 1973? They had to change the title." The men live in the past.

There are also social nuances even among students trying to be egalitarian. Watch the embarrassment when Frank (Ben Chaplin) goes off to a girl friend's country house and finds he doesn't like the country.

The play has a pedigree. It comes from the Studio of the Royal National Theatre, where they do intensive rehearsing and experimenting. The work pays off. Not a line nor a movement in this piece is *lost. Under James Mac*donald's direction and David Roger's design, there is marvellous attention detail. Note the cows outside the country house and, better still, the pigeons outside the window of a London flat.

Yet it cannot be quite true that the National Theatre can make a good production out of almost anything. The writing has to be there in the first place. The only trouble with *Peaches*, which perhaps owes something to the influence of television, is that it lasts for only 75 minutes.

★

Beware of plays that try to be too clever. One good idea is usually enough. At the Gate Theatre Maria Irene Fornes has an excellent idea at the start of *The Danube*: it could be sustained throughout, but distractions get in the way.

The piece plays around with foreign language teaching. It is Budapest 1938. On the board is Unit One: Basic sentences. A visiting American talks to some locals in that slow stilted style that goes with learning a new language. "Are you a Hungarian?" "No, I am an American." The conversation moves on: "What do you eat for breakfast, as a rule?"

There are some promising developments. A Hungarian father (Simon Andrews) muses that some say that German is the language of the future, but that others say that it is English. The father has a marked preference for German cigarettes. Since this is close to the eve of the second world war, all that is appropriately ominous.

Then *The Danube* shoots off all over the place. As a programme note puts it: the play "soon departs from chronologically (*sic*) realism". The notes also refer to nuclear fall-out from north eastern Kazakstan, pollution in Budapest and the London suburb of Putney, as well as the alleged misdeeds of the mining company, RTZ. Certainly the characters begin to suffer from respiratory and other diseases, yet nothing is very clear.

Meanwhile, the play continues in its language lesson format, eventually reaching Unit 14. This is a useful dramatic venture in itself. It shows how the language of the text books is not always so different from the language people speak if they lack individual self-expression. It could be further explored. Ms Fornes throws away the chance by trying to do too much.

One other slight cavil. Short plays seem to be catching. *The Danube* lasts only 80 minutes. There is, however, one joy. Hannah Miles makes her first professional appearance as the Hungarian daughter. Previously she had played Hedda Gabler at the Guildhall school. She has great poise, and is clearly an actress to be watched. Direction is by Nancy Meckler for the Shared Experience Theatre.

★

At the Cockpit, John Constable's *Tulip Futures* suffers even more than *The Danube* from seeking to be too clever. It may sound a good idea to write a play about the financial market in Dutch tulips in the 17th century measured against the market for art: it is a piece about relative values. Yet good ideas are not always inherently dramatic: it helps to have characters, feeling and wit. *Still, the piece is redeemed by a* splendid last five minutes when the characters in the original portraits speak from their now elevated position in the National Gallery. Abigail *Morris* directs and there is a remarkably ambitious set, perhaps too big for this theatre, designed by Tom Piper.


Ben Chaplin and Kate Hardie in Nick Gross's sparkling first play, 'Peaches' Alastair Muir

Theatre/**Malcolm Rutherford**

Simple ideas come off best on the Fringe

South Bank Music/**David Murray**

Harnoncourt and more

On Sunday at the Royal Festival Hall the Philharmonia concluded its cycle of Beethoven symphonies under Nikolaus Harnoncourt with the Ninth, prefaced by the C minor piano concerto. The soloist in the latter should have been Martha Argerich, but her place was taken by the 22-year-old Till Fellner, the Viennese winner of last year's Clara Haskil competition: tingling with musical intelligence, light-fingered and agile, but a touch self-effacing still.

Brio was notably absent from Harnoncourt's opening Allegro con brio, which may have left Fellner slightly at a loss. The first orchestral statement was briskly up-tempo, but in Harnoncourt's hands the music soon became dour and square-cut: not a good springboard for the soloist. In the Largo Fellner hoped that thoughtful sincerity would do duty for full-blooded projection, but it didn't. Only in the Rondo did he and Har*noncourt find a common ground*, where the young pianist could show his real promise, mettle and wit.

In the "Choral" Symphony, Harnoncourt's rigorous attention to phrasing and voicing paid off handsomely. Chiefly on the stringed instruments – I was astonished that he tolerated the horns' and timpa*ni's smudgy dotted-triplets when he* had demanded such sharp precision from his strings; yet the Scherzo was a model of urgency. The Allegro had been just as lithe, though it lacked some ballast for Beethoven's gravity, six double-basses are simply too few in the Festival Hall.

The great Adagio was all temper*ate, studied density, though my* companion repined at Harnoncourt's turning it into "a mere Andante". Difficult: we know that 18th and 19th century Adagios went faster than they have done in the last 50-odd years; but how far we should adjust our sensibilities to historical rectitude is a moot point. *With the sterling Philharmonia* Chorus in the Finale, Hans Peter Blochwitz (a late substitute) stood out among the soloists for style and brightness, sturdily abetted by Luba Orgonasova and Ann Murray. Stephen Roberts's baritone was disappointing. Harnoncourt took the visionary passages with a kind of measured breathlessness – no mystical haze, but controlled awe; and he raced away at last to an honest, inspiriting close. As highly calculated performances go, this one was rewarding far beyond the norm.

There had been a pre-concert concert at 6 o'clock, the second in the Philharmonia's "Music of Today" series: an excellent bonus in principle, but this time a damp squib. Instead of the music originally announced, by Heinz Goebbels and Michael Torke, we got one piece for 14 players by James MacMillan. As the orchestra's Visiting Composer, he runs the series.

The Exorcism of Rio Sumpúl is a bleeding-heart response to something that happened in the Third World in 1986, in the spirit of many pieces by Nigel Osborne and MacMillan's teacher John Casken. Supposedly, helicopters of the El Salvador military came to shoot out a peasant village; miraculously nobody was killed; then the parish priest, and children, and soon *everyone else, took up* "a strangely comical dance" of relief and devout thanks. Not a bad scenario; but MacMillan's lengthy spoken introduction mentioned only what would anyway be obvious, the little ensemble sounded shy and wan in the big hall. The music fell short of the intensity he promised.

Two nights earlier, the Birmingham Contemporary Music Group, Electro-Acoustic Sound Theatre and student choirs (under Jonty Harrison) gave their all to the 1972 "Europa-version" of Stockhausen's *Momente* in the Queen Elizabeth Hall. *It used sometimes to be taken* for a momentous work, but it paled on re-acquaintance. It came from one of Stockhausen's crazier periods, when his marital life was undergoing fission. What the innumerable short-breathed "moments" of the music could not convey – erotic rapture, mostly – is meant to *be stuffed into the spoken texts and* giggles. Though the dominating soprano, Angela Tunstall, was superbly equal to every demand, the score now seems a patchy thing for its length, propped up by music-theatrical whimsy. There is *much* better Stockhausen than this autobiographical silliness.

INTERNATIONAL ARTS GUIDE

■ BONN

Beethovenhalle In tomorrow's concert, Steven Sloane conducts the Beethovenhalle Orchestra and Chorus in works by Mahler and Fauré. Vladimir Spivakov is director and solo violinist next Tues with the Moscow Virtuosi in works by Bach, Bartok, Stravinsky and Haydn (0228-773666)
Oper This month's repertory consists of Verdi's La traviata with Marisa Vitali/Hasmik Papian as Violetta, Puccini's La fanciulla del West with Barbara Daniels and Giuseppe Giacomini, the new *Schnittke/George* Whyte dance drama about the Dreyfus affair, and Il guarany, an opera by 19th century Brazilian composer Antonio Carlos Gomes. *Youri* Vamos' new production of Sleeping Beauty opens on Nov 27 (0228-773667)

■ BORDEAUX

Palais des Sports Tonight, tomorrow: Stanislaw Skrowaczewski conducts Orchestre National Bordeaux Aquitaine in works by Barber, Lutoslawski and Brahms, with piano soloist Gerhard Oppitz. Next Wed and Thurs: Gidon Kremer plays Schumann's Violin Concerto (5648 5854)

■ COLOGNE

Opernhaus Tonight, Sat: concert performances of Bellini's La Sonnambula with cast headed by Edita Gruberova. Tomorrow, Sun: La traviata. Fri, next Wed: Lothar Zagrosek conducts Michael Hampe's new production of Lulu, with cast headed by Patricia Wise, *Hanna Schwarz and Wolfgang* Schöne (0221-221 8400)
Philharmonie Fri: Fritz Lang's 1925 silent film Metropolis with live piano accompaniment. Next Tues: Semyon Bychkov conducts Orchestre de Paris in works by Strauss, Dutilleux and Stravinsky (0221-2801)
Schauspielhaus Fri: first night of *new production of Brecht's* Die Kleinbürgerhochzeit, directed by Hannelore Hoger. Repertory also includes the musical Fiddler of the Roof and Shakespeare's King Lear (0221-221 8400)

■ COPENHAGEN

Royal Theatre Tonight: new Danish choreography. Tomorrow, Mon: Flemming Flindt's new production of Prokofiev's opera The Love for Three Oranges. Fri: Flindt's *staging* of Thomas Koppel's ballet The Triumph of Death. Sat, next Tues: Don Carlo (tel 3314 1002 fax 3312 3692)

■ DRESDEN

Semperoper *Tonight (5pm)*: Der Rosenkavalier. Tomorrow: Ariadne auf Naxos. Fri, Sun, next Tues: The Bartered Bride. Sat: Un ballo in maschera (0351-484 2323)

■ DUSSELDORF

Schauspielhaus *Tonight, Sat, Sun*: Shakespeare's The Merchant of Venice, directed by Karin Beier. Tomorrow, Mon: Brecht's Arturo Ui. Fri, Tues: Die Fledermaus (0211-369911)
Deutsche Oper am Rhein Tonight: Heinz Spoerli's ballet A Midsummer Night's Dream. Tomorrow, Sun: Kiss Me Kate. *Fri, Sat: new ballet* workshop programme. Tues: Mahagonny (0211-890 8211). The Duisburg Theatre has Der fliegende Holländer tonight and Fri, Rigoletto tomorrow and Fiddler on the Roof on Sat (0203-300 9100)

■ FRANKFURT

Oper Tonight, Sun: new production of Schoenberg's Pierrot Lunaire and Janacek's Diary of a Young Man Who Disappeared, staged by Reinhild Hoffmann and conducted by Mathias Dulac/Sylvain Cambreling. Nov 27: first night of new production of Don Giovanni (069-236061)
Alte Oper Tonight: Bach's B minor Mass. Tonight (Mozart Saal): Dorris Soffel song recital. Tomorrow: Semyon Bychkov conducts Orchestre de Paris in Ravel's Piano Concerto in G (Hélène Grimaud) and Mahler's Fifth Symphony. Fri: Roger *Norrington conducts Chamber* Orchestra of Europe in Weber, Stravinsky and Mendelssohn. Sat: The Dubliners. Sun morning, Mon *evening: Sylvain* Cambreling conducts Frankfurt Opera Orchestra in Berlioz, Hindemith and Beethoven, with viola soloist Kim Kashkashian. Sun evening: Daniel Nazareth conducts Middle German Radio Symphony Orchestra in Beethoven and Berlioz, with piano *soloist Homero Francesch* (069-134 0400)

■ *GOTHENBURG*

Konserthuset Tonight, tomorrow, Sat afternoon: Niklas Willen conducts Gothenburg Symphony Orchestra in works by Beethoven, Lindgren and Tchaikovsky, with piano soloist Peter Jablonski (031-167000)
Operan Tonight: Robert North's production of *Prokofiev's ballet* Romeo and Juliet. Sat: Blomdahl's 1959 space opera Aniara. Nov 25, 27: Neeme Järvi conducts *Gothenburg Symphony* Orchestra and Chorus in Mahler's Eighth Symphony (031-131300)

■ HAMBURG

Staatsoper Tonight, Sat: Hamburg Ballet in John Neumeier's Requiem, music by Mozart. Tomorrow, Sun: Neumeier's production of The Nutcracker. Fri: Siegfried with Heinz Kruse and Simon Estes. Next Tues: *Ariadne auf Naxos. Next Wed:* Götterdämmerung (040-351721)
Musikhalle Tonight: Hamburg Mozart Orchestra plays Tchaikovsky *and Mozart. Sat:* Beaux Arts *Trio.* Sun: Moscow Virtuosi with director/violin soloist Vladimir Spivakov. Mon: Semyon Bychkov conducts Orchestre de Paris in works by Ravel and Mahler, with piano soloist Hélène Grimaud (040-354414)

■ HELSINKI

Finnish National Opera Tonight, Sat, next Wed: Otello. Tomorrow: La *boheme. Fri: Miguel Gomez-Martinez* conducts concert performance of Falla's Atlantida (0-4030 2211)

■ *LYON*

Yevgeny Kissin plays the Schumann piano concerto at Auditorium Maurice Ravel tomorrow, Fri and Sat with the Orchestre National de Lyon conducted by Gilbert Varga (7860 3713)

■ MUNICH

Gasteig Tonight: Semyon Bychkov conducts Orchestre de Paris in Schubert's Second Symphony and Mahler's Fifth. Tomorrow: Gianluigi Gelmetti conducts Munich Philharmonic Orchestra and Chorus in Rossini's Stabat Mater. Sat: Herlbert Beissel conducts Klassische Philharmonie Bonn in Beethoven and Mozart. Sun: Arthur Fagen conducts Bavarian Radio Orchestra in an evening of opera arias, with mezzo Vesselina Kasarova and baritone Boje Skovhus (089-4809 8614)
Staatsoper Tomorrow, Sun: *Carmen. Fri, Mon: Elektra with Janis* Martin, Leonie Rysanek and Sabine Hass. Sat: La traviata starring Tiziana Fabbricini and Francisco *Araiza* (089-221316)
Deutsches Theater Tonight, tomorrow: Rafael Aguilar's Ballet Teatro Espanol in a flamenco programme (089-5523 4360)
Prinzregententheater Tonight, *tomorrow*: Chicago, the Kander and Ebb musical in a production directed by Jeffrey Dunn (089-2916 1414)

■ OSLO

Konserthus Tomorrow, Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in works by Beethoven, Bartok and Berlioz, with piano soloist Yefim Bronfman. Sat: Martin Turnovsky conducts concert of operatic extracts, with vocal soloists Inva Mula-Tchako and Keith Lewis (2283 3200)

■ STOCKHOLM

Royal Opera *Tonight: Le nozze di* Figaro. Tomorrow, Sat afternoon, next Tues: Natalie Conus' production of Swan Lake. Fri, Mon: *La traviata* (tickets 08-248240 information 08-203515)
Konserthuset Sat afternoon: Anne Sofie von Otter song recital. Sat evening: first concert in a week-long Sandström festival (tickets 08-102110 information 08-212520)

■ STUTTGART

Staatstheater Tonight: Rolf Riehm's new opera Das Schweigen der Sirenen. Tomorrow, Sat: Béjart's choreographic version of Die Zauberflöte. Fri and Sun: Lady Macbeth of Mtsensk with Kathryn Harries as Katerina. Nov 24: first night of new production of Janacek's From the House of the Dead (0711-221795)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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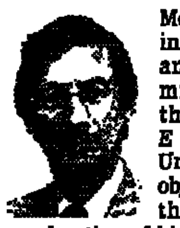
Ian Davidson



Conflict of interest

The US move on Bosnia disregards broader strategic goals

Monday's meeting of foreign and defence ministers of the Western European Union was an object lesson in the current acceleration of history.

The occasion was supposed to break ground in two ways: with a first substantive debate on the development of a distinctively European defence policy; and with a first joint session with ministers from eastern Europe.

In the event, both these innovations fell flat, because they were over-shadowed by another bit of history-making that was not supposed to be on the agenda: uproar and agitation at the US decision to break ranks over the UN arms embargo on Bosnia.

This American decision may not, perhaps, make much practical difference to the effectiveness of the embargo or to the war in former Yugoslavia. But no one can disguise the potential political damage that it could inflict on the transatlantic relationship.

First, this conflict goes symbolically to the heart of the future of the Atlantic alliance. The US has on many previous occasions pursued military policies which the Europeans did not like: the Vietnam war, for example, or the bombing of Libya. But this is the first time that the US has deliberately engaged in strategic conflict with the European allies in the European theatre.

What makes this so worrying is what it says about American attitudes towards the alliance after the end of the cold war. That relationship must mean much less to the Americans than we used to be told if they are prepared to jeopardise it for the sake of what they have so little reason to hope will be a "fairer" war in Bosnia.

The second cause for concern is that the US move seems to have been made in disregard of bigger geo-strategic objectives. By any rational assessment, the west ought to give a higher priority to the general strategic relationship with Moscow than to a unilateral and unpredictable intervention in the Bosnian war.

But the Russians also have an essential practical role in international efforts to deal with the Bosnian war: the west persuaded them to join the five-nation "contact group", precisely because outside pressure had much less chance of persuading the belligerents to settle without co-operation from the Russians, traditional allies of the Serbs.

These strategic considerations are now in jeopardy. Any lifting of the arms embargo on the Bosnians will provoke a parallel lifting of the embargo on the Serbs, either overt or covert; the Russians will be under domestic pressure to help their Serbian protégés; and the anti-western camp in Russia will be strengthened. It is hard to believe that this adds up to an advantageous strategic bargain for the US, for the sake of an intervention in Bosnia whose effects must be marginal.

This conflict goes symbolically to the heart of the future of the Atlantic alliance

It is certainly not a good strategic bargain for western Europe. The over-riding priority of the members of the European Union just now is to work out, ahead of the Inter-Governmental Conference (IGC) in 1996, a new European architecture for the post-cold war world. By now, there is fairly common agreement that this must include the expansion of the EU to include the countries of eastern Europe. But there is so far no consensus whether this means a loose and floppy organism with opt-outs galore (the British vision), or a tightly integrated structure with a semi-federal "hard core" (the German model). This conundrum will be much more difficult if western Europe also has to deal with a bigger war in the Balkans.

And yet the row over Bosnia has one large compensation: it should ensure that future discussions of the new architecture for Europe take account of the fact that the transatlantic relationship is now unavoidably different from what it was during the cold war.

The UK government's argument for a loose, floppy, amoeba-like organism has rested on the assumption that Nato, the American leadership of Nato, and the Anglo-American "special relationship" would all go on as before. That assumption has been crumbling in the face of the facts; now it is no longer tenable. In the post-cold war world, the transatlantic Alliance is losing its pulling-power on policy in Washington.

Some European diplomats minimise the US move away from the arms embargo, under the pretext that it was imposed on President Bill Clinton by Congress. Yet the fact is that Clinton himself has been at odds with Europe over Bosnia; and if the latest move was imposed by the old Congress, just wait to see what the new one will do. The chances are it will be more hostile to Russia, more hostile to the UN and all the constraints of multilateral diplomacy, and more impatient with what it sees as the wimpish Europeans.

This cannot fail to have repercussions on the 1996 debate. All European countries would much prefer the Americans to lead the alliance as before, because that would save them so much trouble; above all, it would exonerate them from taking charge of their own destiny. But if the alliance has become less central to US policy, as is inevitable, then it must also become less central to European policy. You cannot follow a leader who does not want to go anywhere you want him to go.

The Americans have just raised the stakes for the 1996 European negotiation in ways they may not have expected. If the EU expands to the east, it will need a real foreign and security policy: the combination of the east Europeans inside, and the Russians outside, will make it almost unavoidable. It will become inevitable if the west Europeans come to believe that their strategic objectives and those of the Americans are no longer the same.

The hard work is still to come

Kohl must control a fractious coalition government, write Judy Dempsey and Michael Lindemann

Coalition builders: Foreign Minister Klaus Kinkel, Finance Minister Theo Waigel and Helmut Kohl

At 11.13 yesterday morning, a hush fell over Germany's Bundestag. Mrs Rita Süssmuth, the speaker, had returned to her seat. "Look, there go the flowers – he's made it," a cameraman whispered. Seconds later Mr Helmut Kohl rose out of his front row seat to acknowledge an ovation from the massed ranks behind him. There was not a flicker of emotion from the opposition benches.

Mr Kohl had made it. By the skin of his teeth – with just one vote more than the 337 he needed to have an absolute majority in the 672-seat assembly – he had been elected chancellor for a fifth term.

That was the easy part. The tough time is still to come. For the next four years, Mr Kohl will have to keep control of a tired and fractious coalition, with a majority of just 10 votes in the Bundestag, and a hostile majority in the Bundesrat, the second chamber of the German parliament where the 16 states are represented.

He must do so with a budget that is already seriously overstretched, a continuing drain of funds to support the collapsed economy in east Germany, and a soaring public debt burden that is set to exceed DM2,000bn, or some 62 per cent of gross domestic product, in 1995.

Much of what Mr Kohl intends to do is spelt out in his agenda for the coming legislative period, a 49-page document agreed in record time between his Christian Democratic Union (CDU), its more conservative Bavarian sister party the Christian Social Union (CSU), and the Free Democratic party (FDP), since they won their narrow victory in the October 16 general election.

The focus is clear: it includes reducing the budget deficit, cutting public expenditure and creating jobs to counter the rise in long-term unemployment in west Germany as well as the east.

But implementing this agenda may well expose the cracks in the coalition, particularly since the government's majority now depends on its weakest partner: the FDP, led by Mr Klaus Kinkel, the foreign minister, saw its support slump from 11 per cent to 6.9 per cent in the election and now needs to assert its independence to regain support. Tax reform, and the whole effort to reduce the budget deficit, may prove the first test.

The previous government's medium-term fiscal plan envisaged a decline in the deficit from 4.4 per cent of GDP in 1993 to less than 1 per cent of GDP in 1998. Such a reduction would lead to a decrease in the public debt ratio, from the peak of 62 per cent in 1995 to 57.5 per cent in 1998. This would allow Germany to fulfil the requirements for entering the European Monetary Union.

Mr Thomas Mayer, chief economist at Goldman Sachs, the US investment bank, says "this desired deficit reduction would require keeping the annual average increase in total government expenditures to 2.4 per cent in 1995-1998," compared with a predicted nominal growth rate of 5.25 per cent a year over that period.

That will be tough enough to achieve. But the need for expenditure restraint will be greatest for the 11 west German states, to allow for above-average spending growth of the five east German states to fund high infrastructure and social spending. Since most of the states are dominated by the opposition Social Democratic Party (SPD), Mr Kohl will be forced to strike bargains with the Bundesrat to push through all the cuts he needs.

The FDP is already chafing at the re-imposition of the so-called solidarity surcharge from next January 1, a 7.5 percentage point addition to income tax designed to raise an estimated DM28bn for investment in eastern Germany. This will curb the deficit, which Mr Theo Waigel, the finance minister, admits will still total DM64bn this year.

But in keeping with its liberal, tax-cutting traditions, the FDP tried to negotiate a deadline by which the surcharge would be scrapped. It had to make do, instead, with an annual review, and the issue is certain to strain relations between the coalition partners. "How long can the taxpayer tolerate high taxes?" asked a liberal deputy.

Cuts in social spending remain a priority for German industry

The SPD, for its part, is already challenging the coalition's other taxation policies. The biggest bone of contention is the way in which the government will finance an increase in the income tax threshold – demanded by the federal constitutional court – so that no tax is paid below subsistence level. Achieving this means a rise in tax-free income from DM5,060 to DM12,000, at a cost, according to Mr Waigel, of DM15bn. An independent commission, which he appointed, argues the cost of raising the tax threshold will be closer to DM40bn.

And the three coalition partners have yet to explain how the government will implement cuts in social spending while finding the money to finance their election promises. Two commissions have been appointed to assess what needs to be changed.

One will examine the range of welfare benefits to see whether they are necessary; the other is to determine what can be done to encourage the long-term unemployed to return to work, even if the jobs are low-paid. Neither is expected to report until 1996 and the coalition programme contains few hints about how money can be saved before then.

Cuts in social spending remain a priority for German industry which still complains about the burden of social security contributions. To underline its concerns, the employers' federation presented an ambitious programme to restructure the social security system just two days after the October election.

But Mr Kohl knows the issue remains divisive within his own CDU, and faces a battle to push social spending cuts through the Bundesrat. The SPD nominally controls 41 of the chamber's 68 seats – enough to block most legislation. In practice, the states in the Bundesrat rarely vote on purely party political lines. But it will still take all the government's tactical skills to outmanoeuvre the SPD.

There are political tensions as well. The SPD, the Greens, and the Party of Democratic Socialism, the one-time East German Communist party, will seize every opportunity to exploit the government's tiny majority, and especially to detach the FDP from its coalition partners.

One tense issue is certain to be the government's campaign against organised crime. This would include installing electronic surveillance and bugging devices in homes, something which the liberals oppose. It was dropped from the coalition's agenda because of bitter disagreements between the partners.

Given the vulnerability of the FDP, which exposes the fragility of the coalition, it will be left up to Mr Wolfgang Schäuble, parliamentary head of the CDU/CSU faction, to impose not only party discipline across the ranks, but also to weaken the opposition by dividing it. He has already made tentative overtures to the Greens. Last week, it was the CDU, and not the SPD, that elected Ms Antje Vollmer, a senior member of the Greens, as one of the Bundestag's four deputy speakers.

"The last thing Mr Kohl wants is a united opposition whose policies might appear attractive to the FDP," said a close colleague of the Chancellor. "Given this weakened majority and a strong SPD in the Bundesrat, I just wonder if this government has enough political will to push through its policies," said Mr Mayer.

Mr Kohl only just made it yesterday. He has gone before parliament five times since 1982 to be elected chancellor – yesterday's margin of victory was his smallest ever. That in itself augurs badly for the coming four years. His greatest strength, though, remains his ability to surprise. He may do so again.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Sustainable pay rise, not minimum wage

From Phillip Oppenheim MP.

Sir, John Monks, secretary general of the Trades Union Congress, indicated in his letter (November 14) that the union movement is considering seriously its policy on a national minimum wage.

We in government share Mr Monks's wish for there to be a sustainable increase in levels of pay. However, Mr Monks and his colleagues have failed to tell us how they would handle the implications of a minimum wage on differentials. Bill Jordan, president of the AEEU engineering and electrical union, has already indicated that his union would oppose any squeeze on pay differentials.

The unhappy experience of a minimum wage in Spain and France emphasises the need for pay to be determined between employers and workers in the light of their particular circumstances. This enables increases in pay and investment to be sustained through increased productivity.

The only way to ensure sustainable increases in pay in the UK is to boost our economic competitiveness by achieving monetary and fiscal stability. One only has to look at the increase in productivity since 1979 to see that we have made progress in this field, but we must ensure that this progress continues.

Our success with this policy can be illustrated by the fact that the real take-home pay of a single man in the bottom 10 per cent of the full-time wage distribution is 23 per cent higher than in 1979. Under the last Labour government, it fell by 1 per cent.

Phillip Oppenheim,
parliamentary under-secretary of state,
Department of Employment,
Caxton House,
Tothill Street,
London SW1H 9NF

State of US healthcare no threat to Canadians

From Ms Carol Clemenhagen.

Sir, Mr Fredric Steinberg of Atlanta, Georgia (Letters, October 24), expresses great concern that Canadians will have nowhere to go for treatment "if US healthcare goes down the socialised road to medical oblivion".

Do please let me allay Mr Steinberg's fears: in spite of all the American-based propaganda he may have heard to the contrary, Canada's health system, like the Canadians who use it, is alive, well and thriving. Yes, we are working to improve elements of our health system and we are certainly faced with cutbacks in publicly-funded health programmes. However, Canadian governments, healthcare providers and the general public remain firmly committed to the principle of financially unimpeded access to healthcare as a building block for the continued well-being of our population.

Irrespective of the future state of our American neighbour's health system, Canadians can continue to look forward to first-rate care within our own borders without regard to an individual's ability to pay. We sympathise with the uninsured Americans who do not now seem likely to share that privilege and security in their own country.

Carol Clemenhagen,
president,
Canadian Hospital Association,
17 York, Suite 100,
Ottawa, Ontario K1N 9J6,
Canada

Result lacked decisiveness

From Mr John Stanning.

Sir, "Sweden gives clear Yes to EU" said your headline (November 14). No, it did not. It gave only a very dubious Yes. Nearly half the voters (47 per cent) said No.

Your story describes Finland's vote as "decisive approval". In fact 43 per cent voted No in the Finnish referendum. Neither country has accepted EU membership wholeheartedly.

John Stanning,
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Assistance should be real

From Mr J R Read.

Sir, In his review of Sir James Goldsmith's book, *The Trap* ("Trapped in a protectionist world", November 10), Martin Wolf states that "if we are all concerned about unemployment and the distribution of the gains from growth, the best and most politically honest policy is direct, rather than indirect, assistance to the workers".

However, before any assistance is given, would it not be a good idea to remove the barriers to employment? After all, what is the point of simultaneously discouraging an activity and then trying to assist it?

Put another way, why levy tens of billions of pounds on employment and then try to encourage it by handing a tiny fraction back, at the same time trying to delude everybody that the net result is assistance?

John Read,
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London NW11 6TX

Little evidence of poor performers being prime takeover targets

From Dr Tim Jenkinson and Professor Colin Mayer.

Sir, In a recently published book, *Hostile Takeovers: Defence, Attack and Corporate Governance* (McGraw Hill), we report that there is little evidence that targets of takeovers are poorly performing firms experiencing either earnings or dividend reductions or below average stock market performance. Reviewing the book (FT Review of Business Books: "Handle with care", November 2), David Wighton suggests that, during periods of rising earnings, companies with below average growth rather than declining earnings and dividends may also be legitimate targets of bids. Even if this were true, it simply does not apply: more than 80 per cent of the targets where we report no evidence of poor performance actually experienced earnings increases above the market average.

In regard to stock market returns, Wighton suggests that anticipation of bids may have inflated targets' share prices, causing poor performance to be disguised. We specifically avoid this problem by allowing poor performance to be revealed up to two years before the bid: 70 per cent of the targets with above average stock market performance outperformed two as well as one year before the bid.

Contrary to the impression created by the review, the book is not primarily about performance; others have provided more detailed evidence in support of the above. Instead, the book examines the strategies employed by raider and target company. The detailed case studies reveal that hostile bids are frequently motivated by strategic objectives of the raider rather than poor performance of targets. It is a pity that the review of the book makes no mention of one of its main observations, and that is the few defences which targets can employ once, in particular, cash bids have been launched.

The book argues that shareholders should be able voluntarily to implement takeover defences, as they commonly do in virtually every country outside the UK, on the grounds that a large group of dispersed shareholders may be unable to commit to particular corporate policies in the absence of such self-denying ordinances. On the basis of evidence from several recent studies, the burden of proof that the UK should have the most liberal hostile takeover market of any country in the world, including the US, now rests firmly in the hands of those who wish to establish that no consequential damage is imposed on target companies.

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FINANCIAL TIMES

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Wednesday November 16 1994

Mr Greenspan gives up

Sensible it may have been. Surprising it was not. With the Congressional elections now behind him, few doubted that Mr Alan Greenspan would decide to raise US interest rates at yesterday's Federal Reserve Open Market Committee meeting. In the end, he did a little more than many expected.

The three-quarter point rise in both the discount rate and the rate on federal funds will not please everybody. But Mr Greenspan is not there to please. He is there to keep inflation broadly stable, as the US recovery matures. To date, there is little to suggest that he has got much wrong.

The Federal Reserve chairman is attempting a difficult feat with highly imperfect tools. Mr Greenspan would like to engineer a "soft landing" for a healthy economy, now well into its fourth year of expansion. The five rate rises since the beginning of the year, which preceded yesterday's change, have so far failed to bring the annual rate of growth in real GDP, currently 3.8 per cent, to the 2.5 per cent historically associated with stable inflation.

News of continued growth of both retail sales and industrial production in October did little to dispel investors' belief in the economy's underlying vigour. Before yesterday, they have increasingly condemned Mr Greenspan's efforts as lethargic, especially in light of persistent downward pressure on the dollar. Yet the fact that interest rate changes have most of their effect a year or two after the event makes this judgment a lot easier to assert than to prove.

Mr Greenspan has been slower to raise interest rates in the current upturn than his predecessor in the early 1980s. But, if one were judging by history alone, one would have to call this year's tightening pre-emptive.

There is only anecdotal evidence of an acceleration in consumer prices, which grew at an annual rate of 3 per cent in September, only a little above its cyclical low of 2.7 per cent. Growth in the narrow measure of money supply, one of the more useful forward predictors of inflation during the 1980s, has fallen steadily over the past year, to a mere 1 per cent annual rate.

This anaemic narrow money growth has come with stronger expansion of lending and rapid job creation. Clearly, many of the old rules for gauging future inflationary pressures no longer apply. Unfortunately for Mr Greenspan, he has had to improvise, before an unusually attentive – and critical – audience in Washington and the financial markets.

Over the past several decades, the real rate on federal funds has averaged 2 per cent. Yesterday's rise – the largest single increase Mr Greenspan has sanctioned in his career as Federal Reserve chairman – took it significantly above that level, for the first time this cycle. It is unlikely to be the last increase that Mr Greenspan is required to make in the months ahead. With luck, however, his uncharacteristic decisiveness will curb future inflation as well as his market critics.

Apec and Europe

Is it plausible that the mixed bag of countries represented at the summit of the Asia-Pacific Economic Co-operation forum will actually attain "free and open trade ... no later than 2020"? The answer must be no. Yet the fact that they have even made this commitment is intriguing.

The question is what precisely has been decided. Apart from the broad commitment to liberalisation and the call for specific proposals to be advanced next year, there is only the agreement that industrialised countries should liberalise by 2010 and the rest by 2020. All else remains obscure.

What, for example, is meant by free trade or by Apec's "opposition to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade"? How can liberalisation be pursued within the region, while ensuring that the result is "not only the actual reduction of barriers among Apec economies but also between Apec economies and non-Apec economies"?

Any kind of discriminatory arrangement within so large a part of the world's economy would be undesirable. Why, for example, should Malaysia discriminate against Bangladesh in favour of the US? Yet non-discriminatory liberalisation within Apec would almost certainly be impossible, because of the concern about free-riders. The only escape from the dilemma would be global negotiations. But it would be unsatisfactory for such negotiations to be launched only after Apec had already decided its own position, since the rest of the world would then be presented with a "take it or leave it" negotiating position.

The right way for any global negotiation to proceed is globally. Ideally, therefore, Apec should be a catalyst for global negotiations and neither a substitute for such negotiations, nor an independent forum. The only outside entity capable of insisting upon this is the EU. But, first, it must commit itself to that notion and, more broadly, to engagement with the rising economies of East Asia.

Before that, the EU has to ratify the Uruguay Round, something that should now be possible after yesterday's ruling by the Court of Justice on the powers of the Commission and the member states. If the EU is to be an effective negotiator, it will also have to develop a *modus operandi* for negotiations in areas of mixed competence. If nothing else, the outcome of the Apec summit should encourage it to do this swiftly. Otherwise it may find itself ignored, because it will be judged too intractable a negotiating partner.

The promising aspect of Apec is the momentum it should impart to global liberalisation. How that momentum will, and should, be guided is, however, obscure. The essential prior step is ratification of the Uruguay Round. Then the priority must be further global progress. It is up to the EU, as the major player outside Apec, to give voice to that wider interest.

Utter contempt

There are various reasons why the government of one sovereign state might wish to give £234m to that of another, as the UK promised Malaysia it would in 1989.

There might be general considerations of foreign or trade policy: Malaysia is a country of growing wealth and influence, whose government, headed by a notoriously prickly prime minister, has important contracts in its gift. That gives Britain an interest in keeping him sweet. Or again there might be a specific interest in securing a particular contract, in this instance a £1.3bn arms deal. We know that such a linkage was explicitly made in a protocol signed, but subsequently repudiated, by Lord Younger, then defence secretary.

The UK's modest overseas aid budget, however, has a more restricted application. An act of parliament says that the primary purpose of money disbursed under this heading must be the economic benefit of a foreign country or welfare of its people.

That still allows a considerable latitude. The Malaysian government claims to be convinced that the Pergau dam will benefit the country and add to its people's welfare. The British government could, in theory, have agreed. How ministers must wish that Sir Timothy Lankester, then permanent secretary at the Overseas Development Administration, had done just that, instead of advising the foreign secretary, then as now Mr Douglas Hurd, that funding the dam was an abuse of the aid programme.

It is rather to their credit that Sir Timothy's career does not seem to have suffered; he now heads the much larger department of education. But his authoritative view on Pergau remains on file, and last week the High Court decided that in overriding it Mr Hurd broke the law.

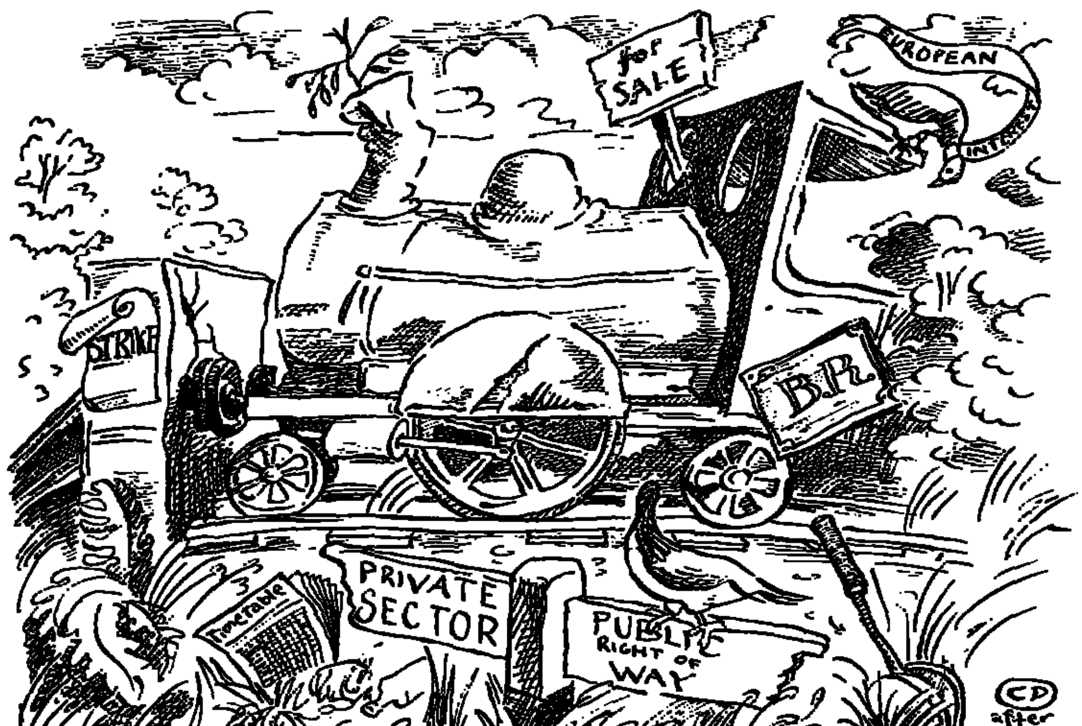
There the matter should have ended. Clearly Britain cannot now get out of paying Malaysia the money it has promised. Equally clearly, that money should not come out of the meagre aid budget, which is badly needed for more deserving causes. It must come from somewhere else – the obvious place being the defence budget. So much of this is already devoted to keeping British arms manufacturers in business that an extra £234m would hardly be missed, whereas that sum could still meet the basic needs of quite a few people in the world's poorest countries.

Alas, that conclusion is apparently not so obvious to British ministers. Treasury officials, presumably so instructed by their political masters, are now examining a scheme whereby the payment to Malaysia would come out of the Treasury's contingency fund, and the ODA budget would be cut by a corresponding amount. Thus the letter of the High Court's judgment would be respected, its spirit flagrantly and deliberately ignored. Such is the humility and respect for the law which Conservative politicians have learnt during 15 unbroken years in office.

Timely escape from the sidings

British Rail privatisation is getting back on track after the signalworkers' strike, says Charles Batchelor

The little train was quite exhausted. He had only a very little coal left in his boiler. When that was gone he would not be able to travel any further. He would just come to a stop, until someone came and pushed him into a siding, where he would get older and older and rustier and rustier and nobody would remember him.



Seven months after British Rail began implementing the legislation intended to privatise its activities, many travellers and some would-be investors are beginning to wonder if BR faces the same gloomy fate as the hero of Graham Greene's story The Little Train.

BR privatisation appeared to have been shunted into a siding after this summer's signalmen's strike highlighted the losses that train operators could suffer through disruption in the rail network. The lack of visible progress in shaping a railway fit for life in the private sector added further to that appearance.

But appearances deceive. Talk to the BR managers busily preparing to mount management/employee buy-outs of the companies that run trains and a very different picture emerges. Visit one of the numerous conferences arranged to explain the privatisation process and the attendance list attests to the strong interest from the commercial sector. There is a lot going on behind the scenes, and continued interest from potential investors.

The government has set the managers in charge of privatisation a demanding timetable. Nearly 100 businesses are up for sale over the next two to three years. These range in estimated value from around £1m, for the small manufacturers of timber sleepers and concrete bridge beams, to between £2bn and £4bn for all three of the companies that will lease rolling stock to train operators.

Mr David Blake, managing director of the 20-strong BR unit in charge of the sales acknowledges that the timetable is challenging. But he hopes that the five merchant banks working on the sales will find buyers for its heavy maintenance workshops, Red Star and the Freightliner container business by next March.

The 14 companies that carry out track maintenance and repairs – with combined sales of more than £1bn and a workforce of 30,000 – should all be in the private sector by December 1995.

But many hurdles remain before it will be possible to describe the privatisation as a success.

The profit and loss accounts of the first businesses to be put up for sale revealed some unexpected horrors, previously hidden inside BR's byzantine accounting systems. For example, when the Red Star parcels business was first put up for sale in June 1993, it revealed losses of £9m on a £43m turnover. Not surprisingly, it failed to find a bidder and has since undergone a thorough restructuring in preparation for sale by the end of December.

And the signalworkers' strike has almost certainly dashed hopes of an early flotation on the stock market for Railtrack, the BR company set up to operate the track and most stations. With an estimated market capitalisation of £3bn-£3.5bn, the company would be one of the top 100 quoted companies and join the FT-SE 100 index.

The government still hopes for a flotation before the next election. But Railtrack is the part of BR that causes others in the business the most concern, thanks to its power to impose unreasonable charges and conditions on those who wish to run trains on its tracks.

Mr John Swift QC, the rail regulator, is currently consulting the industry on the access agreements to be signed between Railtrack and train operators. It is clear that he sees the need for curbs on Railtrack's monopoly.

He questions the Treasury's method of valuing Railtrack's assets, with 100-year-old viaducts having been valued on a modern replacement basis. He also challenges its requirement for a return on those assets of 5.1 per cent, rising to 8 per cent, when commercial rates of return have been falling in line with lower inflation. Railtrack may be charging too much for access because of these rules, he implies, burdening the train operators with higher costs.

Until the framework for track charges is finalised, it will be hard to proceed with privatising BR's passenger train businesses. They are to be privatised by selling franchises to run passenger services for periods expected to run for between seven and 10 years.

Franchising allows the government to bring private sector disciplines into the passenger railway while maintaining government subsidies to businesses that will struggle to make a conventional profit. But it imposes a hideously complex task on Mr Roger Salmon, the former merchant banker who is director of passenger rail franchising. He now has to negotiate the myriad contracts between the different players in the industry, including the train operators, the rolling stock leasing companies and Railtrack.

Mr Peter Field, managing director of South West Trains, estimates that he has paid his lawyers for 3,000 hours of work on the 200 legal agreements he needs to operate trains services in his region. It is clear that moving from a single monolithic railway system, where procedures are controlled by memo and the rule book, to one of contracts between independent companies is proving time-consuming.

Mr Salmon says his task is to ensure that the risks of running a railway are shared fairly and that the companies involved have sufficient performance incentives. His ideal is a set of "self-policing" agreements, which encourage the parties to work together to solve problems rather than resorting to the courts.

He aims to ensure that the sale of the first half dozen companies is completed by the end of 1995, with more than half of the passenger railway network in private hands by April 1996.

He hopes that the train operating companies should be able to present potential investors with their first set of audited accounts, covering the 12 months ending March 1996, in the middle of next year.

Although it will be some months before the passenger franchises are formally offered for sale, the current managers, for the most part long-term BR men, are eager to ensure that their companies emerge the victors when the franchises are put up to competitive bidding.

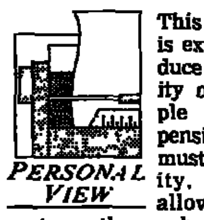
After many years spent juggling their costs they now see an opportunity to exert, for the first time, a significant influence on their revenues. ScotRail, for example, has launched a promotional campaign which should provide up to 1m customers with free or reduced price travel. South West Trains has upgraded its London to Southampton service to a 20-minute "shuttle," while Gatwick Express has signed up the airlines to sell its tickets before the plane even lands at Gatwick.

But while the operators see this as a way of creating closer links with their customers, critics of rail privatisation fear it is further proof of the risk of breaking up the national network. Gatwick Express has already been taken to task by Mr Swift for favouring its services above those of its two competitors at Gatwick station.

For the designers of the new railway age, one of the main aims of the contracts that they are now drawing up is the prevention of fragmentation. Their grand project is the engineering of a structure and system that will ensure that decentralisation works – that the railways perform as an effective whole. This, they hope, will remove the need for costly changes later, when the private sector makes its bids for, or is actually running, the railways.

Only a system that can achieve a balance of risk and market strength between the near 100 companies that will provide railway services after privatisation will remove the danger of some parts of BR, at least, ending up rusting in the sidings.

Better deal for personal pensions



PERSONAL VIEW

This year's budget is expected to introduce greater flexibility over when people with personal pensions in the UK must buy an annuity, probably by allowing them to postpone the purchase until the age of 75 rather than on retirement.

It would be better to remove the obligation to buy an annuity altogether. This would transform personal pensions into a flexible savings vehicle for retirement, similar to the American individual retirement account, and would give people greater choice.

Whether an annuity is an appropriate investment for an individual depends on factors that are impossible to forecast: how long a person will live, the rate of inflation, and the future performance of investment portfolios.

The income from an annuity is initially greater than the income from a conventional portfolio. This reflects actuarial assumptions about mortality rates and the use of capital. In effect, early deaths finance higher initial benefits.

Inflation, however, erodes the real value of an annuity. The cost of indexing an annuity is expensive.

Even if prices are stable, economic growth and rising returns on equities mean that, over 10 to 15 years, the return on an investment portfolio will overtake the income from an annuity. The combination of inflation and economic growth has a lethal effect on the relative attraction of opting for an annuity. But under present pension rules, you do not have a choice – you have to buy an annuity.

Also, you have no control over the capital and an annuity dies with you. There is nothing left for your heirs. If you live a long time, you benefit from the flow of annuity payments, but you will not be able to dispose of capital before or after your death. This does immense damage to the dignity and independence of very elderly people.

The official rationale for the annuity rule is threefold. First, the Inland Revenue is anxious to tax the capital sum. This is reasonable, given that it is accumulated tax free. The principal reason for retaining the annuity rule at 75 appears to be the Revenue's tax concerns.

The Revenue is familiar with taxing annuities; it has had virtually 200 years experience of doing so. It is possible to find alternative arrangements to tax the accumulated sum without obliging people to buy an annuity. Excess pension

Economic growth and inflation have a lethal effect on the relative attraction of opting for an annuity

contributions are already, for example, taxed at 35 per cent.

The second reason for the annuity rule is the social security department's concern that people who have received tax relief should not be in a position to "blow" the accumulated capital and end up on income support. Obliging people to take an annuity prevents that from happening.

But this concern can be resolved by requiring people to retain sufficient capital in a segregated account to generate enough income to keep them off income support. The annuity rule is not necessary. The proposals in Social Security Secretary Peter Lilley's pensions white paper demonstrate that it is irrelevant. This is because people will be allowed to defer the annuity until they are 75, but will only be able to take out an annual income equivalent to that of an annuity.

The third justification, however, is that an annuity is the only way of guaranteeing someone an income until death. This is based on the premise that, even where individuals make seemingly adequate provision to support themselves through an investment portfolio, the returns may prove erratic. This argument ignores problems, like credit risk, timing and the level of interest rates that attach to annuities.

It also neglects the impact of inflation, which can result in a person who lives for a long time ending up needing income support anyway. Someone in their 90s, for example, who retired with an annuity equivalent to male average earnings – a remarkable achievement, given that pensions are only normally expected to provide around two-thirds of final salary – would now be living on the princely sum of £1,000 a year.

The Revenue's instinct is that there is something wrong with people having the freedom to choose how to invest funds that have been accumulated in a tax-privileged form. Instead, they ought to do what the Revenue thinks best and finds most convenient.

It is a profoundly collectivist reflex. Like all collectivist approaches, it has the effect of impoverishing the people it is intended to assist and, by depriving them of control over their capital, it contributes to a lack of dignity and independence in old age. The chancellor and the secretary of state for social security should go the whole hog and end this iniquitous actuaries' tontine.

Warwick Lightfoot

The author, a former Treasury adviser, is an economist with the Royal Bank of Scotland.

OBSERVER

Hands off Argentina

■ Today Argentina gets out the red carpet for the UK's Duke of York, the first official royal visitor since the end of the Anglo-Argentine Falklands war in 1982.

Prince Andrew, a helicopter pilot in that war, today re-inaugurates in Buenos Aires a statue of 19th century British statesman George Canning, which had its hands lopped off by anti-British protestors in 1982, when the statue itself fell.

Disagreement lingers over what exactly happened to the statue, once toppled. The British say Canning was stored away. Argentina's federation of war veterans says the "great English thief" was "deposited in the murky waters of the River Plate as an act of repudiation against British imperialism".

And what of Canning's hands? Have the originals been re-affixed, or are they tucked away in a Buenos Aires apartment? "You can rest assured that it will not be a statue without hands," is the signal from the Foreign Office.

Hogging it

■ Douglas Hogg has at least two reasons to celebrate his wife Sarah's stepping down as head of prime minister John Major's policy unit.

Douglas, a minister of state at the foreign office, will be delighted that Sarah will now occasionally come home; her Downing Street work frequently occupied as many as 16 hours a day.

And maybe his own career will get a boost. Hogg never had a chance of a seat at the cabinet table while Sarah was in Number 10: too nepotistic.

But if the attorney general, Sir Nicholas Lyell, gets chopped as a result of the Scott report on the arms-to-Iraq affair, Douglas must be in with a chance.

Along with Sarah goes Jonathan Hill, Major's political secretary. But the shadow of Sir Tim Bell, Baroness Thatcher's image-maker and chairman of PR firm Lowe Bell, still looms. Hill was previously a Lowe Bell employee; he is returning there as a consultant.

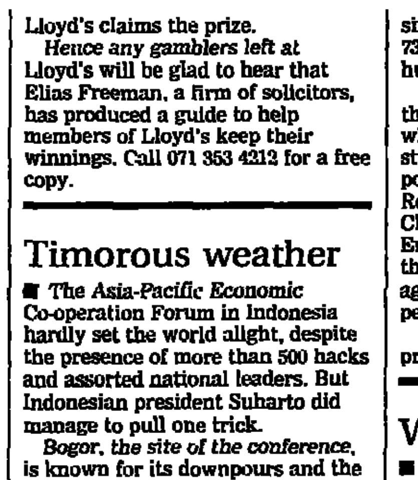
Hill's post is being taken by Howell James – one of Bell's closest friends. And when he was at Capital Radio, James employed Bell's wife, Virginia.

Nice to see Major sticking by family values.

Richter scaled

■ Heaving Helmut Kohl back on to his throne as German chancellor yesterday was easier said than done.

In order to avoid any last-minute slip-ups, deputies were ordered to report at 9am sharp, an hour before the Bundestag vote. Six erstwhile missing deputies made it in time for the vote.



'It could be you – but it won't'

One almost didn't. A pale Roland Richter, a new CDU deputy, careered into the Bundestag at 10.44 – two minutes before voting ended. He apparently looked a good deal paler after Wolfgang Schäuble, the party's parliamentary leader, had finished with him.

It could be you

■ Forget tips on how to play the National Lottery. The nightmare for any impoverished member of the Lloyd's of London insurance market is winning the damn thing and then finding that Lloyd's claims the prize.

Hence any gamblers left at Lloyd's will be glad to hear that Elias Freeman, a firm of solicitors, has produced a guide to help members of Lloyd's keep their winnings. Call 071 353 4212 for a free copy.

Timorous weather

■ The Asia-Pacific Economic Co-operation Forum in Indonesia hardly set the world alight, despite the presence of more than 500 hacks and assorted national leaders. But Indonesian president Suharto did manage to pull one trick.

Bogor, the site of the conference, is known for its downpours and the president was worried that Apec's great and not-so-good might get drenched when lining up for some serious photo-opportunities. So a rain man, or *"pawang hujan"*, was hired, and told to pray for dry weather.

Sure enough, Bogor's skies were grey but there were no downpours. "We told him (the *pawang*) that if it rained we wouldn't pay him," said an Indonesian official. Better than *some* incentive schemes on offer in the vicinity.

Rats rule OK?

■ Apparently Malaysia has a problem with stray dogs. About 1m of them are plaguing life, despite the official extermination of 205,000 since 1990. Dog bite cases rose from 73 in 1990 to 95 in 1992, with two human fatalities in the last year.

Grim stuff. But things are not that much better back in the UK, where the problem is not so much stray dogs as an exploding rat population. The 1993 National Rodent Survey – carried out by the Chartered Institute of Environmental Officers – shows that since the last survey, 20 years ago, rat infestation has grown by 40 per cent.

Nice to know that *something* has prospered under the Tories.

Wiped out

■ This is either taking recycling too far, or shows remarkable insouciance in the face of adversity. Some of Ukraine's increasingly worthless interim Karbovanets banknotes are now being turned into toilet paper.

A Dnipropetrovsk papermill – about 500km east of Kiev – is turning 35 tonnes of old banknotes into loo-rolls every month. One dollar currently fetches about 135,000 karbovanets on the streets of Kiev, against 50,000 in mid-September. "We get top quality paper from the banknotes. Only the colour – blue, pink or green – gives away what it once was," says Vladimir Vereshchak, the mill's director.

It no doubt gives a cynical population some measure of satisfaction, anyway.

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Wednesday November 16 1994

Troop mobilisation prompts US action

Nato considers Bihac weapons exclusion zone

By Our Foreign Staff

The US and its Nato allies are considering establishing a heavy weapons exclusion zone around the Serb-besieged Bosnian town of Bihac, the US Defence Department said yesterday.

The possibility of such a zone has been raised as forces loyal to Mr Fikret Abdic, the ousted Moslem leader of the Bihac enclave, are being mobilised to join a Serb offensive against Bihac, UN officials reported yesterday.

American officials added privately that the US had raised the issue and that the allies, at a meeting of Nato ambassadors in Brussels, had agreed to look into the proposal, which could allow allied air power to prevent Serb forces from overrunning the Moslem-held Bihac enclave in north-west Bosnia.

"There have been discussions of the North Atlantic Council on the possibility of an exclusion zone around Bihac. No decision has been made. These consultations and discussions are continuing," said Mr Ken Bacon, the defence department spokesman.

But he would not confirm that the US had raised the issue with the council, Nato's political arm.

Other US officials said that Washington had indeed raised the possibility with the allies of establishing a 10km heavy weapons exclusion zone around Bihac.

"It is one of a number of suggestions that has come up for how to deal with the situation there, and I'd rather not be more specific about it now," Mr Bacon said.

"There are a whole series of options you could think of. An exclusion zone is one."

UN spokesman Mr Michael Williams, speaking in Sarajevo, said: "Our estimate is that Mr Abdic is presently mobilising a force of at least 5,000 from refugee camps."

Bosnian Serb forces are reportedly closing in on Bihac. Mr Williams yesterday confirmed they fired seven Sam anti-aircraft missiles at the Bihac area on Monday.

About 30,000 civilians and soldiers loyal to Mr Abdic fled the Bihac pocket, designated a UN safe area, last August after being defeated by Bosnian government forces.

They lived under difficult conditions in Serb-held lands in Croatia when Zagreb refused to let them cross into the self-styled Serb state.

Local Serbs have re-armed Mr Abdic's soldiers, apparently preparing an assault from Croatia, which borders the Bihac pocket.

France brings forward start of foreign flights to Orly

By John Ridding in Paris

The French government, which is under strong pressure from European governments and airlines to allow access to Orly airport in southern Paris, said yesterday it would bring forward the date on which it would allow landing rights.

The transport ministry said that carriers from European Union member states would be allowed to launch services from January next year. The French government had previously said that the services could not start before the spring.

The European Commission has ordered France to open up Orly, which is the main hub for domestic French flights and closer to central Paris than Charles de Gaulle, the other main airport in the French capital.

But in spite of this ruling and strong pressure from European carriers, including British Airways and KLM of the Netherlands, the French government has resisted the opening of Orly. It has argued that it needs time to prepare for competition and to take measures to prevent disturbance to inhabitants of the Orly area.

Yesterday's announcement coincided with the latest test of strength between the French government and a foreign carrier seeking access to Orly.

After a protracted wrangle, Mr Nikki Lauda, the former Formula 1 motor racing champion and founder and chairman of Lauda Air, the Austrian airline, yesterday landed his inaugural flight at Charles de Gaulle airport. He then pressed for rapid access to Orly.

Mr Lauda had threatened as late as Monday evening to fly to the airport in southern Paris, in spite of the refusal by the French authorities to grant his airline landing permission. He said yesterday that he had been given permission to fly to Orly from the beginning of next year.

Lauda Air said it had been awarded landing slots for Orly in the summer. Six weeks ago, however, the company claimed it had been told by the French government that it could not start services as planned.

In June, France was forced to allow British carriers to fly to Orly from London after a confrontation with the British government and the Commission.

The start of services by European carriers to and from Orly airport is set to coincide with the launch of flights between Orly and Marseilles and Orly and Toulouse, which are the most profitable routes in the French domestic market.

A ruling last month by the European Court of Justice upheld a decision by the European Commission that competition should be introduced on the two routes.

Irish leader apologises in row over child abuse case

By John Murray Brown in Dublin

In a last-ditch attempt to hold on to his premiership, Mr Albert Reynolds, the Irish leader, yesterday expressed "deep and genuine regret to the Irish people" over the mishandling of a child abuse case that has led to a crisis for his Fianna Fail-led coalition government.

His undertaking that the bungled extradition of the priest accused in the case "will never be allowed to happen again in this country" bought a 24-hour delay in the confidence vote scheduled for yesterday.

With Mr Reynolds' Labour party partners last night considering whether to accept his explanation, the future of the 22-month-old coalition hung in the balance.

The prime minister's future depends largely on the response today of his deputy Mr Dick Spring, the Labour leader and foreign minister, who is considering siding with opposition parties to force a general election.

This would come at a critical point in the Northern Ireland peace process as the UK and Irish governments are working on a framework document to provide a durable constitution for Ulster. While the paramilitaries' ceasefire has held for 10 weeks, their participation in the political process is by no means assured.

In an atmosphere of tense expectation in the Dail, Mr Reynolds attempted to appease Labour concerns over his appointment of the attorney-general, Mr Harry Whelehan, as president of the High Court. Mr Whelehan allegedly delayed the priest's extradition. In a special debate, Mr Reynolds fell short of an outright apology to Mr Spring but said he was committed to restoring trust with his Labour partner.

Mr Reynolds urged the House not to let "a single judicial appointment" jeopardise "the biggest breakthrough in Northern Ireland in 25 years".

In a calculated appeal to Mr Spring, the prime minister paid tribute to the Labour leader's role, affirming that "the success of these negotiations will underwrite the future of this country and history will record Dick Spring's essential contribution to that success".

The immediate response of Labour party backbenchers to the impassioned appeal was one of disappointment. Despite Mr Reynolds' announcement of immediate reforms in extradition procedures, they felt the prime minister had not adequately explained the attorney general's seven-month delay in the extraditing the priest involved in the case.

Irish coalition teeters on the brink, Page 2

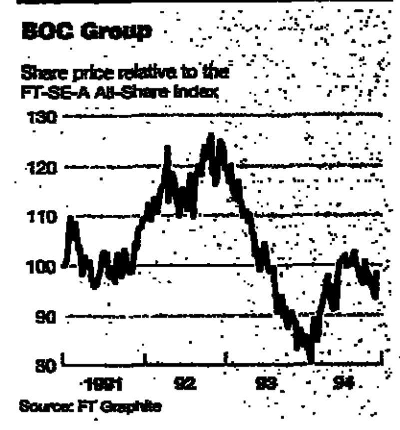
THE LEX COLUMN

Red meat for the markets

The bond and currency markets have been demanding red meat. Yesterday the US Federal Reserve gave it to them. The 75 basis point rise in interest rates may not have been the full one percentage point than many wanted, but it was more than the 50 basis point rise that almost everybody expected. The Fed's action should help slow down the US economy, so minimising the risk of inflation taking off. The size of the increase also means the Fed will probably have a reasonable chance of delaying further rises beyond the end of 1994.

The immediate reaction from the markets was positive, with the yield on the long Treasury bond dipping below 8 per cent. Other markets across the globe are likely to take their lead from Treasuries. The dollar's current value should be underpinned and bond yields outside the US fall. Equities should be carried higher too. Still, one wonders whether the positive mood will last. So far this year, the markets have taken the view that the Fed has acted too little too late to combat inflation. Unless they are convinced that the Fed is now "ahead of the curve", they will be back for more red meat before long.

FT-SE Index: 3135.4 (+40.1)



Source: FT Graphite

Chrysler

Mr Kirk Kerkorian's call for higher dividends and an end to anti-takeover defences at Chrysler is unlikely to presage a bid for the company. Mr Kerkorian's move seems motivated less by the desire to flush out a predator than by frustration with the valuation accorded the group's stock. Despite its earnings recovery, Chrysler's shares have performed poorly this year and now stand at only four to five times expected earnings for 1995. This p/e ratio is about a third of the average for US companies – too low even allowing for the highly cyclical nature of the automotive industry.

At issue is the way in which the group's management disposes of the plentiful cash generated as the industry nears its peak. Mr Kerkorian would like more to be transferred to the company's owners. Dividends have yet to return to the level of the late 1980s. Insofar as pressure from Mr Kerkorian induces a more generous pay-out policy, perhaps accompanied by a share buy-back, it is to be welcomed by investors. The management's desire to husband cash is prudent. But with $6.6bn of liquid assets at the end of the third quarter the company can afford to be more generous. Mr Kerkorian is also right to criticise the bid defences in place at Chrysler. Given its record, Chrysler's management need have nothing to fear from a bid – and should have no qualms about dispensing with "poison-pill" defences.

BOC

The slow, steady progress of industrial gas companies tends to look less than exciting during a cyclical upturn. During the fourth quarter, operating profits at BOC's core gases operations rose an underlying 13 per cent, a modest increase compared with the rest of the chemicals sector. That helps to explain the company's 15 per cent underperformance against the sector over the past two years.

But the qualities of gas companies start to shine near the peak as cyclical companies' earnings growth decelerates. BOC's steady progress should be sustained long after that despite continuing price pressures. BOC has been aggressively cutting costs and busy improving its product mix. But most of the earnings growth will be driven by strong volumes. The industrial gas market expands almost twice as fast as GDP and BOC is heavily exposed to the fast-expanding Asian economies.

The stock is at a price earnings premium to the market for 1995 of about 20 per cent. In the near-term BOC has little chance of outperforming. But its resilience will look increasingly attractive by 1996 when the market's earnings growth is expected to slow to about 5 per cent.

BOC's biggest headache remains its pharmaceuticals business which is small, risky and provides no compelling synergy with the rest of the group. There is no urgency to dispose of the operation because its new anaesthetic drug should compensate for the decline in its old product. The long-term danger is that like Boots and Fisons it will find little significant in the research and development pipeline. If the right price is offered, BOC would do well to exit.

Buy-backs

The £500m spent by Boots buying back its shares may look large. But given that the group is due to receive £850m from selling its prescription drugs business and is highly cash-generative, the sum is actually quite modest. Boots should end the current financial year with nearly £600m net cash. Even so, it is something that Boots has acted at all. Too few British companies – Reuters and most regional electricity companies being the notable exceptions – have been prepared to shrink their equity bases and so boost earnings per share. In the US, companies regularly buy back shares even when already geared. Buy-backs are less common in the UK partly because institutional investors are not as aggressive in pushing for them. But part of the explanation is also that rights issues can be nerve-racking for companies: since raising equity is traumatic, it is not surprising that managements are reluctant to hand it back.

Growing companies

The Stock Exchange's plan for a junior stock market risks being undercut by a rival scheme unveiled yesterday by the European Association of Securities Dealers. The main difference is that the EASD plan is commercially motivated. Since its backers will be required to risk their own capital, it will be marketed vigorously. EASD is already targeting entrepreneurial groups across Europe. The Stock Exchange plan for an Alternative Investment Market, by contrast, was a response to the outcry when it decided to close the Unlisted Securities Market. So far AIM has no clear focus, beyond being a home for companies unsuitable for the exchange's main market. There may, of course, be room for both markets. But the bigger question is whether there is room for either. EASD has shown that companies want to raise capital through such a market. Now it must convince shareholders to invest through it.

Share fears

Continued from Page 1

it," he said. "It is our responsibility as a factory to make sure that the proper owners are on the shareholder register. The register is like our own accounting book."

Russian bankers say this insecure share registry system has spun off a mini-industry in the sale of shares by brokers who do not actually own them.

The unfortunate buyers learn they have been deceived only when they try to add their names to the official register and discover that either the broker or the vendor does not exist.

US rates

Continued from Page 1

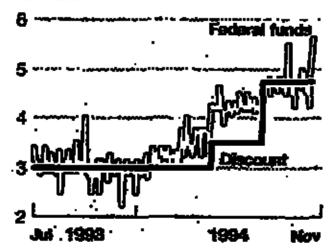
noon trading was up slightly at Y98.42 and almost a pfennig higher at DM1.553.

The FOMC started to tighten monetary policy in February, and in five steps this year it had raised the Federal funds rate by 1.75 percentage points. But at its last meeting in September the committee decided to leave rates unchanged, despite the growing conviction of Wall Street economists that another move would be needed.

Economic data available at the time of the September meeting showed that US gross domestic product had grown at a 3.8 per cent annualised pace in the second quarter.

Since then, second quarter growth has been revised up to 4.1 per cent.

US interest rates



Source: FT Graphite

FT WEATHER GUIDE

Europe today

A depression and an associated frontal zone over the Atlantic will approach north-western Europe, but will not affect the UK until late on Wednesday. Sunshine will be interspersed with cloud and light showers in the western UK.

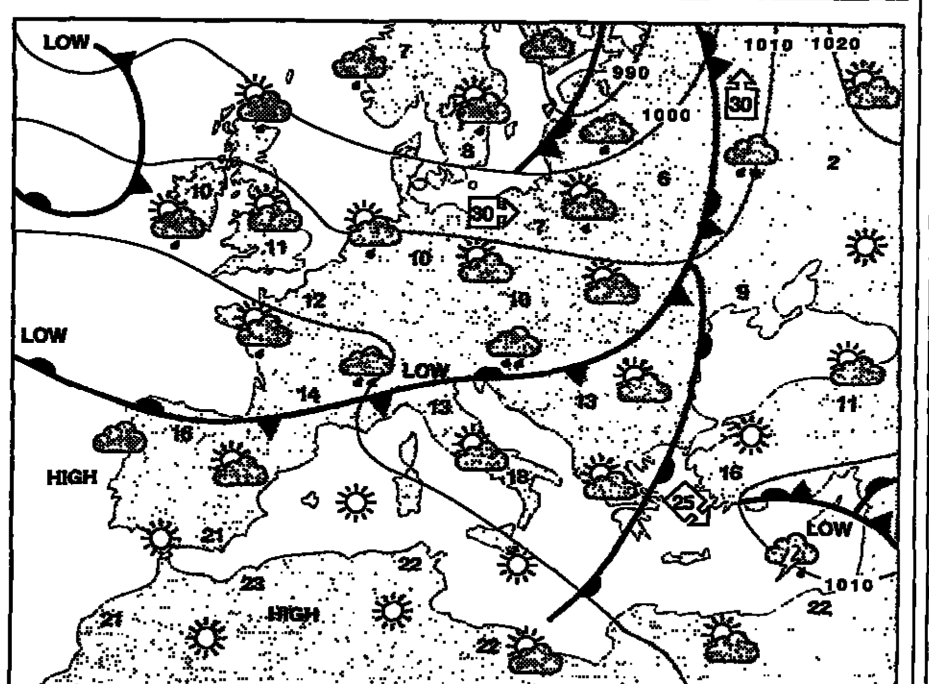
The Benelux and northern France will also have sunny spells and showers. Conditions will be overcast with rain in central France and along the northern coast of Spain.

Rain will also dampen the Alps and northern Italy. Elsewhere in Italy and in the Balkans, there will be a mixture of sun and cloud. North-eastern Europe and eastern Scandinavia will be overcast, while central Scandinavia will have intervals of cloud and sunshine. Wintry conditions will persist in the north.

Five-day forecast

Unsettled conditions will remain over north-western Europe. There will be rain or snow in northern Europe.

Conditions will be mainly tranquil over southern Europe, although heavy rainfall is expected in the Balkans late in the week. Heavy rainfall is expected to develop in the south-east at the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	31
Accra	fair	32
Algiers	sun	23
Amsterdam	shower	12
Athens	sun	18
Atlanta	fair	21
B. Aires	rain	20
B.ham	shower	11
Bangkok	fair	33
Barcelona	sun	19
Beijing	drzzl	7
Belfast	shower	9
Belgrade	shower	14
Berlin	shower	10
Bermuda	fair	24
Bogota	shower	20
Bombay	fair	35
Brussels	shower	11
Budapest	shower	13
C.hagen	cloudy	9
Cairo	cloudy	22
Cape Town	shower	23
Caracas	fair	32
Cardiff	shower	11
Casablanca	sun	21
Chicago	fair	11
Cologne	shower	11
Dakar	sun	29
Dallas	cloudy	16
Delhi	sun	27
Dubai	fair	32
Dublin	shower	10
Dubrovnik	fair	19
Edinburgh	shower	9
Faro	fair	22
Frankfurt	shower	10
Geneva	shower	13
Gibraltar	sun	21
Glasgow	rain	9
Hamburg	shower	9
Helsinki	snow	2
Hong Kong	fair	28
Honolulu	fair	30
Istanbul	sun	14
Jakarta	cloudy	33
Jersey	cloudy	12
Karachi	sun	35
Kuwait	shower	28
L. Angeles	fair	20
Las Palmas	fair	24
Lima	cloudy	22
Lisbon	fair	20
London	cloudy	12
Lux.bourg	shower	10
Lyon	shower	13
Madeira	cloudy	22
Madrid	sun	17
Majorca	fair	21
Malta	fair	21
Manchester	rain	10
Manila	fair	31
Melbourne	fair	21
Mexico City	fair	20
Miami	rain	27
Milan	fair	13
Montreal	fair	6
Moscow	sleet	2
Munich	rain	11
Nairobi	shower	24
Naples	fair	19
Nassau	cloudy	28
New York	cloudy	18
Nice	fair	18
Nicosia	thund	20
Oslo	cloudy	4
Paris	fair	12
Perth	sun	30
Prague	fair	10
Rangoon	fair	30
Reykjavik	snow	1
Rio	cloudy	22
Rome	fair	19
S. Frsco	shower	13
Seoul	shower	14
Singapore	thund	32
Stockholm	shower	2
Strasbourg	shower	12
Sydney	drzzl	23
Tangier	sun	22
Tel Aviv	thund	20
Tokyo	fair	16
Toronto	cloudy	7
Vancouver	rain	4
Venice	cloudy	14
Vienna	rain	11
Warsaw	shower	7
Washington	fair	19
Wellington	fair	14
Winnipeg	cloudy	3
Zurich	rain	10

DERIVATIVES

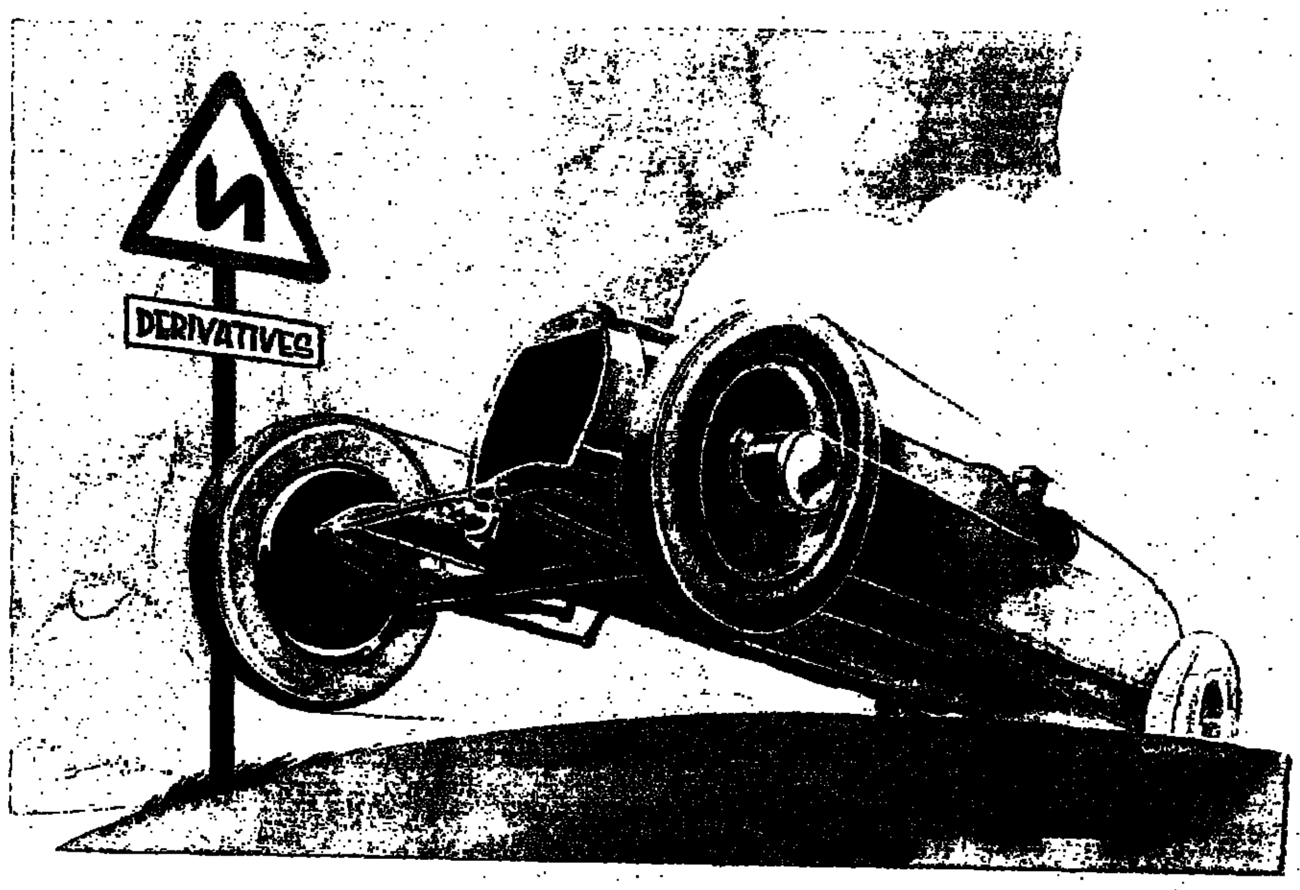
Try a plain vanilla, or maybe a butterfly
Page 5

Health hazards of a physically demanding profession
Page 12

Wednesday November 16 1994

After the shocks which followed the increase in US interest rates, bankers and traders are optimistic about the prospects for growth. **Richard Lapper** looks at a hazardous year for the industry

Caution called for on the road ahead



IN THIS SURVEY

Editorial production: Roy Terry

The financial hurricane which swept through the world's financial markets this *year has* rocked the rapidly growing derivatives industry. Falls in the dollar and world bond markets have *triggered or coincided* with news of multibillion derivatives-related losses by a string of large international *companies*.

Yet, eight months after the US Federal Reserve raised interest rates, bankers, traders and even corporate buyers are sanguine about the potential for continuing growth in derivatives products – in spite of estimated losses of more than $6bn by corporate users over the past 18 months, a flood of adverse publicity, two legal cases and the prospect of more litigation to come. And there is a general welcome for the increased emphasis on disclosure, transparency and accountability which has ensued in the wake of this year's troubles.

The fall in the bond market, triggered by the increase in short term US interest rates, is *the single economic factor to* have done most damage, with heavily leveraged investors in over-the-counter products such as structured notes particularly badly hit.

"The last few years have seen a bull market for interest rates. People thought these low rates were going to continue and get things out of perspective. The froth built up," points out Paul Spraos, publisher of Swaps Monitor, a specialist newsletter.

Two buyers of interest rate products – Gibson Greetings and Procter & Gamble – have *already* sued Bankers Trust, which sold them the products. In the biggest case Procter & Gamble, the consumer products *giant*, in October launched a suit seeking damages of more than $130m.

Procter & Gamble suffered losses from a complex interest-rate swap contract, under which it agreed with the bank to exchange payments in the future based on the interest rates prevailing at the time.

The wider economic turmoil had a knock-on effect elsewhere, with increased volatility in equity markets and a rise in commodity prices, again upsetting the projections of buyers, investors and traders.

And the unexpected decline in the dollar has also led to some losses.

Publicity has also been attracted by losses such as those *incurred* by Metallgesellschaft, the German engineering company, which was hit by a fall in the oil price, *especially during the last* three months of 1993. An MG trading subsidiary was forced to unwind expensive hedges designed to protect it against a rise in price.

Bankers are quick to point out that businesses which simply invested in cash markets have been hurt this year and they say that changes in accountancy practices and the increasing tendency of banks to mark the value of the assets to prevailing market values has exaggerated some of their trading losses.

However, they accept that some of their business has been hit. Figures from the International Swaps and Derivatives Association, the industry body, show that the notional value of swaps and other over-the-counter (OTC) deals outstanding reached $8,475bn in 1993, an increase of 58.5 per cent over 1992. But following last year's surge in derivatives turnover, growth in the OTC market could slow this year.

Although few figures are available Mr Spraos reports a sharp fall in the highly lucrative structured notes market, with activity running about a third of last year's level. Indeed, bankers are quick to concede that the appetite for structured notes has declined. One leading banker suggests the overall value of over-the-counter transactions could fall by more than 15 per cent this year.

However, the story has been far from completely negative. It is widely accepted that the *number of transactions could* easily equal last year's figures, although the unit size of each individual transaction may fall.

Economic volatility has increased interest in many categories of products, including the simpler less complex products traded on futures and options exchanges. Exchange traded volume rose sharply in the first six months of the year. The most impressive growth came from Tokyo International Financial Futures Exchange (Tiffe), where in June monthly volumes broke through the 4m level for the first time, overall volume doubling compared with the same period last year. Europe's three largest exchanges saw volume increase by more than 40 per cent in the first half.

Bankers are optimistic about sales of some categories of more complex products. This year has seen the launch of a *number of funds which invest* in OTC commodities products and other financial instruments whose value is tied to commodity prices.

There is confidence in some quarters about the prospect for equity-based products, particularly in emerging markets where index-based products offer a solution to problems such as settlement and custody. This could be especially important in more primitive markets such as Russia. "A structured solution might give you control of these risks," says Barry Davies, head of equity derivatives at Morgan Stanley. A number of houses are also keen to promote products based on credit risks. "People have less clear-cut views on the direction of interest rates, but a clearer view on the *evolution of spreads*. As a result, derivatives linked to spread have become popular among investors," says Yves *de Balmann, chairman of* Bankers Trust International in London.

More broadly though there is some confidence that the uproar over losses may leave some positive effects, especially if – as many in the industry now hope – the threat of tougher external regulation has receded.

A series of reports by multilateral and governmental organisations as well as post-mortems into the losses at individual companies, have served to focus attention on accountability and disclosure.

A report by the G-30, a group of senior bank executives, published earlier this year – suggest the speed of the market's development has in some cases left behind less sophisticated end users, for example.

"The G-30 report [and a separate report by the US General *Accounting Office*] all spell the same thing to me. There needs to be accountability of senior management. Both client and investment bank have *to be* fully aware of what is going on in their organisation," concludes Mr Davies.

"Boards have not always been aware of the magnitude of the risks they have been running. A long stretch of successes made people sloppy," says Jean-Christian Cheysson, managing director of Credit Suisse Financial Products.

Bankers have responded by emphasising the need for their clients to adopt effective risk management procedures and argue that there is now an emerging consensus among the industry, buyers and regulators about the need for better information flows and reporting, including a global standard for disclosure. In early October, JP Morgan took the unprecedented step of making *a component* of its "black box" – the daily data on interest rates, including money markets, swaps, and government *bonds, and other market statis*tics, and the methodologies it uses to measure them – available free of charge to anyone who wants them. By establishing a benchmark for risk management, through the launch of this Riskmetrics system, Morgan hopes that it can help improve the overall health of the market.

There are also signs that the industry is making some progress in developing better ways of accounting for derivatives. Increasingly the focus for these efforts are the risks arising from adverse movements in the markets rather than the risk of default by counterparties in the over-the-counter market, so-called "credit risks". The International Swaps and Derivatives Association is working on new disclosure guidelines which would take these market risks into account, possibly by the adoption of the concept of value at *risk, which estimates how* much an investment portfolio can lose over time.

"I think we are making good progress," concludes Mr Kurt Viermetz, vice-chairman of JP Morgan. "Participants are learning in terms of transparency and statistics. But the learning curve is very steep for the whole market around the globe."

DERIVATIVES 2

The regulatory debate: **Patrick Harverson** reports

Bankers breathe a little easier

A year ago, the regulatory environment surrounding the derivatives business appeared fraught with danger for the banks and derivatives houses which were prospering from the surge in the market for derivative instruments.

At the time, central banks and finance ministries were just beginning to come to terms with the growth of the derivatives business, and the possibility that this growth threatened the stability of the global financial system. As the inquiries into the business dug deeper, and the air thickened with warnings of impending catastrophe, Wall Street bankers trembled at the prospect of big regulatory guns being brought to bear on their market.

Today, the regulatory climate has changed dramatically, and the bankers are breathing a little easier. Fears that various national and international authorities would impose strict new regulations on banks and securities firms' derivatives activities proved unfounded, and a consensus among regulators has been established. They now mostly agree that derivatives enable companies to better manage their financial risks and to lower the costs of their borrowings, and that new rules governing banks and securities firms' activities are unnecessary.

Regulators believe that their attention is best focused on making sure that dealers and users of derivatives properly report, account for, and disclose the full extent of their activities, and that dealers have the capital to support their derivatives businesses and possess the appropriate systems to measure the risks they are taking.

So close, in fact, have regulators in the US moved towards the industry position that derivatives play a positive role in business and finance, that they now stand side by side with the banks and securities houses against a common foe – Congress.

The fear among US bankers and regulators alike is that if lawmakers introduce legislation tightening federal regulation of derivatives dealers, the market's growth could be badly undermined. As Joseph Lynyak, head of the American Bar Association's banking committee on derivatives, says: "The question is whether they [the legislators] are going to throw the baby out with the bath water, and perceive derivatives to be such a problem that they over-regulate the business to the point where they destroy the market."

Since the summer, regulators have been telling lawmakers at a series of Congressional hearings on derivatives that present regulation of the market is adequate, and that their efforts to improve self-regulation within the derivatives business is preferable to legislation that could lead to over-regulation.

Fears that strict regulations would be imposed on derivatives trading have proved to be unfounded

There is an ironic twist to the regulators' new, more conciliatory approach to derivatives. They have become more supportive of the derivatives community at a time when it has been struggling to overcome the debilitating impact of a reversal in interest rate trends worldwide and a loss of confidence by some derivatives users following a string of well-publicised losses and lawsuits – the sort of developments which in the past might have persuaded regulators to take immediate action to rein in banks and dealer firms' activities.

It was the wave of bad publicity that swamped derivatives earlier this year which emboldened Congress to tackle the market head on.

Over the summer, several influential lawmakers drafted legislation granting banking and securities industry authorities broad new regulatory powers over the derivatives market.

Although regulatory officials have already said they are opposed to derivatives legislation, the leaders behind the various initiatives – including Henry Gonzalez, Jim Leach and Edward Markey, all senior members of important House of Representatives' banking and finance committees – appear determined to proceed with their efforts to tighten derivatives supervision when the new Congress convenes early next year.

Their ambitions, however, are greeted with scepticism within the industry, which is adamantly opposed to any kind of legislation. Of the lawmakers' plans for 1995, Robert Bench, managing partner for Price Waterhouse's regulatory advisory practice in Washington, says: "They are expected to reintroduce legislation in the new Congress, but what's curious about it is that there does not seem to be any support for legislation beyond [a few] individuals."

While the regulatory community in the US has been opposing attempts on Capitol Hill to introduce new rules for derivatives, it has also been busy promoting better self-regulation among derivatives dealers and users by drafting recommendations for improving reporting, accounting and disclosure standards within the industry.

Among the authorities that have issued recommendations along these lines, or that have begun inquiries into derivatives disclosure, are the Office of the Comptroller of the Currency (the Treasury's bank regulating arm), the Securities and Exchange Commission (which oversees securities firms), the Commodity Futures Trading Commission (which regulates exchange-traded derivatives), and the Financial Accounting Standards Board (which wants companies to disclose more about their derivatives holdings).

Of the SEC and CFTC's investigations of derivatives, Mr Bench says: "The degree to which the inquiries may lead to, if not necessarily legislation then some kind of defining regulation, remains to be seen."

Mr Lynyak, however, believes the regulators will continue to favour a policy of self-regulation. "What you are going to see is probably some minor accounting changes, clearly some securities disclosure changes, and some capital requirements arising from the Basle committee."

The Basle committee of the Bank for International Settlements, meanwhile, is at the heart of international efforts to improve regulation, reporting and risk management in the derivatives business.

In July, the Basle committee and the International Organisation of Securities Commissions (IOSCO) jointly issued guide lines stressing sound internal risk management for derivatives trading by banks and securities firms, and last month the Basle committee weighed in again on the need for dealers to disclose more about the various risks inherent in their derivatives activities, and on the need for dealers to maintain up-to-date systems for measuring those risks.

The Basle committee's work with IOSCO is part of a co-operative effort among international regulators to align reporting, accounting, disclosure and capital standards worldwide. Yet, establishing widely-recognised international standards is one of the toughest tasks facing the industry. Inevitably, different national regulators have different views on how to respond to growth in the derivatives market.

At a recent IOSCO meeting in Tokyo, for example, clear policy differences emerged between the regulators in Japan, which want tighter supervision of the market, and those in the US and the UK, which do not want to impede international capital flows or financial markets' innovation and favour a lighter touch at the controls.

Arthur Levitt, chairman of the SEC, hinted at the exasperation that the more *laisser-faire* oriented regulators were feeling in Tokyo when he said: "There's greater progress being made in other countries, and I wish we could all get in the same place at the same time."

DERIVATIVES CONTRACTS

Position	Contract	Exchange	Jan-Jun 94	Jan-Jun 93
Top contracts				
1 (1)	US T-bond f	CBOT	55,914,665	38,738,260
2 (3)	Eurodollar f	CME	54,770,703	32,284,480
3 (2)	S&P 100 o	CBOE	41,079,033	34,527,491
4 (4)	Notionnel f	Matif	31,363,785	17,452,147
5 (10)	German Bund f	Liffe	21,713,991	9,081,679
6 (8)	3 month Euroyen f	Tiffe	20,900,020	10,065,704
7 (7)	3 month Euromark f	Liffe	17,286,232	10,651,273
8 (6)	US T-bond o	CBOT	15,869,451	10,794,092
9 (9)	Interest rate f	BM&F	14,830,194	9,428,154
10 (11)	Eurodollar o	CME	14,282,458	8,900,731
11 (-)	Ibex 35 f	Meff RV	14,280,072	3,683,132
12 (5)	Crude oil f	Nymex	14,016,081	10,926,661
13 (12)	Dax o	DTB	12,869,626	8,355,234
14 (13)	10 year T-note f	CBOT	12,855,375	8,005,551
15 (16)	S&P 500 f	CBOE	12,711,850	7,970,659
16 (-)	Long gilt f	Liffe	11,847,936	4,824,480
17 (-)	Notionnel o	Matif	10,854,180	5,197,371
18 (16)	S&P 500 f	CME	9,153,178	6,775,393
19 (19)	3 month sterling f	Liffe	8,437,058	5,807,764
20 (-)	Gold f	Tocom	8,317,437	2,840,409
Stock indices				
1 (1)	S&P 100 o	CBOE	41,079,033	34,527,491
2 (7)	Ibex 35 f	Meff RV	14,280,072	3,683,132
3 (2)	Dax o	DTB	12,869,626	8,355,234
4 (3)	S&P 500 o	CBOE	12,711,850	7,970,659
5 (4)	S&P 500 f	CME	9,153,178	6,775,393
6 (10)	CAC 40 f	Matif	4,666,142	2,558,602
7 (-)	Ibex 35 o	Meff RV	3,910,890	1,624,897
8 (5)	Ibovespa f	BM&F	3,791,983	5,374,992
9 (9)	SMI o	Soffex	2,998,875	2,644,539
10 (6)	Nikkei 225 f	Osaka	2,985,037	4,805,475
Currencies				
1 (3)	$Cruzeiro f	BM&F	6,519,867	3,291,030
2 (1)	Deutschemark f	CME	6,107,408	6,575,812
3 (6)	Yen f	CME	3,499,301	2,715,216
4 (5)	Swiss franc f	CME	2,762,460	2,869,129
5 (4)	Deutschemark o	CME	2,749,216	3,169,931
6 (8)	French franc f	PHLX	2,524,899	1,325,872
7 (2)	Deutschemark o	PHLX	1,927,836	3,747,144
8 (7)	Sterling f	CME	1,902,599	1,732,775
9 (9)	Yen o	CME	1,667,614	898,197
10 (-)	$Canada f	CME	881,579	589,329
Interest rates				
1 (1)	US T-bond f	CBOT	55,914,665	38,738,260
2 (2)	Eurodollar f	CME	54,770,703	32,284,480
3 (3)	Notionnel f	Matif	31,363,785	17,452,147
4 (8)	German Bund f	Liffe	21,713,991	9,081,679
5 (6)	Euroyen f	Tiffe	20,900,020	10,065,704
6 (5)	3 month Euromark f	Liffe	17,286,232	10,651,273
7 (4)	US T-bond o	CBOT	15,869,451	10,794,092
8 (7)	Interest rate f	BM&F	14,830,194	9,428,154
9 (9)	Eurodollar o	CME	14,282,458	8,900,731
10 (10)	10 year T-Note f	CBOT	12,855,375	8,005,551
Metals				
1 (5)	Gold f	Tocom	8,371,437	2,840,409
2 (1)	Copper f	LME	8,262,276	8,136,282
3 (3)	Aluminium f	LME	7,121,161	4,522,808
4 (4)	Gold f	Comex	4,707,469	4,215,964
5 (2)	Gold o	BM&F	4,390,874	5,017,393
6 (7)	Silver f	Comex	3,359,193	2,180,068
7 (6)	Platinum f	Tocom	2,934,207	2,274,903
8 (8)	Zinc f	LME	2,614,790	1,727,778
9 (-)	Nickel f	LME	1,571,349	971,110
10 (10)	Copper f	Comex	1,408,713	987,744
Grains				
1 (2)	Corn f	CBOT	6,975,634	4,558,097
2 (1)	Soybean f	CBOT	6,229,882	4,809,464
3 (3)	Red beans f	TGE	2,536,522	3,123,151
4 (5)	Soybean oil f	CBOT	2,421,384	1,989,193
5 (4)	Soybean meal f	CBOT	2,380,356	2,114,857
Meats				
1 (1)	Live cattle f	CME	1,636,143	1,705,112
2 (2)	Live hogs f	CME	753,230	766,592
3 (3)	Pork bellies f	CME	354,587	395,658
4 (4)	Live cattle o	CME	272,259	274,605
5 (5)	Feeder cattle f	CME	236,957	205,511
Energy				
1 (1)	Crude oil f	Nymex	14,016,081	10,926,661
2 (2)	Brent crude f	IPE	5,007,855	3,968,857
3 (3)	Heating oil f	Nymex	4,712,621	3,800,041
4 (4)	Unleaded gas f	Nymex	3,784,041	3,399,064
5 (5)	Crude oil o	Nymex	3,090,739	3,294,372
Softs				
1 (1)	Sugar No 11 f	CSCE	2,459,335	2,643,186
2 (3)	Coffee C f	CSCE	1,595,471	1,272,183
3 (2)	Cotton f	Tocom	1,497,630	1,347,491
4 (4)	Cocoa f	CSCE	1,281,222	816,267
5 (5)	Cotton f	NYCE	1,270,945	813,607

Source: Futures & Options

The future of futures trading: **Laurie Morse** reports

Shift away from US continues

Ten years ago, when 95 per cent of the world's futures trading occurred in the US and London's Liffe was considered an "emerging market", Chicago's futures visionaries believed the route to global expansion was through electronic connections.

Their vision of a single global after-hours trading system anchored and governed in Chicago, uniting a confederation of trading countries across time zones, has not materialised. Instead, a host of competing futures exchanges have blossomed across Europe and Asia, and continue to emerge in economies as diverse as China, South Africa and Peru.

Last year, for the first time, more futures contracts traded abroad than in the US. This year, as the world's top 10 ten futures exchanges again topple volume records, the geographic shift in market share away from the US continues. Futures Industry Association data show that for the first nine months of this year, US futures and options exchanges had a cumulative volume of 498.2m contracts, while the rest of the world combined had traded 594.8m during the same period.

Listed derivatives trading outside the US is growing at a rate of 54.8 per cent this year, compared to the US growth rate of 28 per cent. On a percentage basis, the biggest gainers in are exchanges that have been in existence for fewer than five years.

Surprisingly, despite the proliferation, relatively few alliances have been forged between futures exchanges. The robust growth in derivatives trading has allowed each exchange to develop independently, while demand for futures products outside domestic time zones has proved lighter than imagined.

Reuters' costly experiment with a global electronic trading network, Globex, has demonstrated that day-to-day demand *for* after-hours access to financial futures contracts is meagre. However, such systems are still invaluable because *they* provide escape routes during times of crisis. Futures' industry experts say that just knowing contracts can be exited after regular business hours gives traders a kind of insurance policy that significantly reduces market, credit, and political risk.

Grand visions for Globex have fizzled out, with only the Chicago Mercantile Exchange and France's Matif still contributing to the system. However, other sorts of bilateral co-operations are being developed, and during the next decade may evolve into powerful trading blocs.

The future of futures trading, it appears, may follow the example of the CME's 10-year-old mutual offset agreement with Singapore, rather than the Globex model. The CME/Simex arrangement allows financial contracts, such as the CME's Eurodollar futures and options, to trade interchangeably in Chicago and Singapore.

The newest cross-exchange futures co-operation is Matif's link with Germany's DTB. Matif's liquid contracts and DTB's excellent technology have the potential, over time, to create a formidable alliance, and give Matif an after-hours alternative to Globex, should Reuters discontinue that project.

Gerard Pfauwadel, Matif's chairman, has said he will also consider joint ventures with Europe's smaller, fast-growing exchanges in Spain, the Netherlands, and Switzerland. However, building such links is a treacherous business, since they require co-operating exchanges to put aside competitive differences and harmonise rules that can differ dramatically from country to country.

Loose electronic links that allow exchanges to market into different time zones are forming for two specific products: government bond futures and energy derivatives. The Chicago Board of Trade, London's Liffe, and the Sydney Futures Exchange are examining the technological feasibility of linking their existing after-hours computers so their respective government securities products could be available electronically to traders at the partner exchanges.

Along a similar vein, the Sydney Futures Exchange recently agreed to list its energy products on Access, the after-hours computer trading system operated by the New York Mercantile Exchange.

Unlike Matif, Liffe sees its expansion opportunities outside Europe. It is in talks with Simex to distribute its euro-deutschemark futures contract, is exploring co-operative arrangements with Tokyo's Tiffe for a euroyen product, and has an agreement with the Tokyo Stock Exchange where Tokyo's opening price is used to settle Liffe's Japanese Government Bond contract.

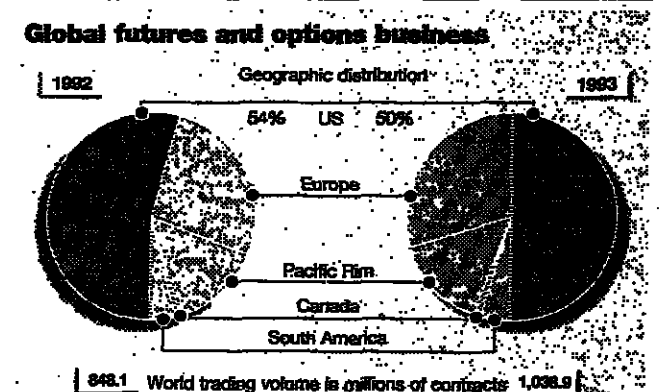
These talks, and those Liffe is conducting with the CBOT, are in such preliminary stages, however, that results are difficult to predict.

Top 10 derivatives exchanges
(ranked by futures and options contract volume)[1]

Rank	Exchange	Jan-Sept 1994	Jan-Sept 1993	% change
1	CBOT (Chicago)	171.1m	131.2m	30
2	CME (Chicago)	153.0m	110.3m	38
3	Liffe (London)	118.3m	68.8m	72
4	CBOE (Chicago)	82.6m	61.7m	34
5	Matif (Paris)	76.3m	53.6m	42
6	BM&F (Brazil)	70.6m	39.1m	80
7	Nymex (New York)[2]	60.2m	54.8m	10
8	DTB (German)	39.3m	22.6m	74
9	LME (London)	34.2m	25.3m	35
10	Tiffe (Tokyo)	29.6m	16.7m	77

1 Volume of options traded on individual securities is not included. 2 Nymex volumes are Nymex and Comex combined, for both years. Source: Futures Industry Association, Washington

Global futures and options business



Source: Futures Industry

A secondary force, the trend toward international harmonisation of regulations governing futures trading and co-operation between regulatory agencies worldwide, is smoothing the way for these sorts of links This trend was set in motion during the early days of Globex development, and continues as world futures trading expands.

While potential links between various futures exchanges are interesting for competitive reasons, they are merely a sideshow to the main event. Most of the world's futures are traded in open outcry during regular business hours.

The world's four largest futures exchanges – the CBOT, the CME, Liffe, and Matif – are all riding the crest of an interest rate derivatives boom that has brought unprecedented growth to their trading floors. *It* now appears that boom is *levelling out*, with the International Swaps and Derivatives Association reporting a slowdown in the past 12 months, particularly in US dollar-denominated transactions.

Although some exchanges still grumble that the over-the-counter markets are stealing business, most now recognise that the bank markets are their best customers. The CME, a prime example, has seen volume double in the past five years, and seat values rise to near $1m, primarily because its eurodollar pits provide a hedging haven for off-exchange interest rate derivatives transactions. Growth in the contract ramped higher this year on volatility generated by Federal Reserve credit tightening.

Eurodollar futures and options during the first nine months of this year comprised 64.7 per cent of the CME's total volume, compared with 45 per cent in 1989. While the CME's business shows no signs of slackening, its future is unusually vulnerable to a slump in the bank swaps market.

CME competitors such as Liffe have more diversified product portfolios which make them less dependent on the long-term fortunes of a single product. However, even those exchanges will have to cope with a rapid maturation of the markets that underpin their products and a consequent flattening in their growth curves.

The only futures exchanges that have not shared equally in the swirling success of derivatives this year are those devoted primarily to physical commodities. Although money managers have rediscovered commodities as an asset class, their effect on exchange volume has been spotty – New York orange juice and coffee futures, for example, have thrived as a result of Wall Street's recent attention, while some other commodities have escaped notice.

To strengthen their positions, a number of commodity exchanges have quietly consolidated. The largest of these consolidations was in New York, where the Comex merged with the Nymex to create the biggest commodity exchange in the world. Equally significant has been the gradual combination of Japan's broadly-fragmented physical exchange markets.

In Europe, China, and Russia, new exchanges are developing to help manage risk in agricultural commodities that have recently been released from centrally-planned pricing.

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Technology: Claire Gooding reports

Systems get a new look

Shut an ex-derivatives trader into a room with two electronics designers and a financial products engineer. Wait for 11 months. What emerges is a blueprint for the future of derivatives trading systems, according to the manufacturer's claims for one new product.

Fun is not the word most people associate with trading systems. But the new system for modelling financial instruments, FiCAD, promises to be fun to use, and illuminating about the various risks and relationships in, for example, trading exotics.

FiCAD is modelled on graphics – computer-aided design (Cad), to be more precise. Cad is used by architects and designers for creating three-dimensional models of everything from buildings to computer chips. Because of its graphical nature, and the ability to deal with "related" values, derived from elsewhere, it is the ideal tool for dealing with exotics, and other complex products that require imaginative handling.

The person proposing this scheme is Rod Beckstrom, a former derivatives trader at Morgan Stanley International. Despite his MBA from Stanford, it is likely that no-one would take him seriously if he were not also the founder and chief executive of the company that claims the lead in software systems for derivative trading, C.ATS – Computer Aided Trading Systems of Palo Alto.

Four years ago the C.ATS brainstorming team came up with the idea of "sketching" the complex relationships that underpin derivatives. They worked on development for a year – but chose inappropriate technology as the vehicle, threw it all away, and began again. "We started coding before we got the design right," admits Mr Beckstrom.

Steve Jobs, the founder of Apple Computer and, more recently, of Next Computer, became associated with the project, and development went ahead using Next's computer environment and software development tools.

No-one was laughing by the time the FiCAD – Financial Computer Aided Design – system was launched in March this year. The idea of dealing with derivative products through a computerised drawing pad sounds less crazy when it becomes clear that banks and other users are not being asked to abandon their existing investments. FiCAD effectively "bolts on" to previous, more rigid systems that use older technology and mind sets.

Mr Beckstrom has a track record of backing outsiders that win. In the past he has made technical decisions that seemed risky, only to watch the rest of the field follow the trend. When he first envisaged the design of the original C.ATS package in 1986, the underlying principle of cashflow analysis seemed unconventional in software design, and the hardware choice of Unix open systems almost outrageous.

Unix, subsequently adopted by many hardware suppliers as a standard operating environment for shared multi-user systems, was then still emerging as a standard. It gives end-users a choice of hardware suppliers and the ability to transfer or upgrade hardware without changing software: hence "openness". Users can share data and applications on a Unix network, while still retaining immense local power through a desktop work station. Unix operating functions and many Unix applications are written in the powerful language called C.

C.ATS built the first cash-flow-based system in 1986, adopting the best practice at the time, by representing any part of the value of a payment as cash flow. "In 1986 we used the C programming language, and Unix operating systems on Sun Microsystems work stations," says Mr Beckstrom. "It was heretical at the time, but everyone else followed the architecture. We feel we have broader cash-flow functionality than anyone, but we've also taken it to the extreme and tested its limitations.

"The breaking down of instruments into cash flows over time was a useful way of describing all sorts of contracts, but they didn't describe complex options and the plethora of new products financial engineers have been creating – the exotics," he adds. "So we had to answer the question: 'if the lowest level elements of instruments are not cash flows, then what are they?'"

Mr Beckstrom believes they would never have found the answer without "fresh blood in the room to penetrate the financial jargon", and it was provided by James Kleckner, technical director of C.ATS, whose experience in simulation techniques and Cad system Systems) is evident in the techniques used by FiCAD.

The product uses techniques the IT world has been parading as state of the art for some time, such as object-oriented programming, and parallel processing. Parallel processing breaks tasks across several computers to provide higher speed.

Object-oriented programming (OOP) is a quick but very flexible way of developing software programs. The technique produces complex applications that are nevertheless "intuitive", very easy for end-users to navigate, and just as important in the changing world of finance, easy to maintain and update.

Such OOP programs gather disparate information into consolidated "objects", depicted on the computer screen in a graphical "icon" which can be opened up (via lists or menus) into its various components and relationships with a point-and-click mouse. The company is signing up third-party developers who plan to build FiCAD product offerings.

"We've taken the most dynamic object-technology in the world and applied it to the most dynamic industry," says Mr Beckstrom. "It's totally visual computing. We're convinced that NeXT is the reference architecture for the future. You can model any instrument, process it in real time. Our users are speed freaks, because there's such a value to getting the answer faster than your competitor. The others are all hoping we're mad but we've been proved right in the past. It's a risk, but a calculated risk."

Mr Beckstrom's stance is that banks are throwing away money on developing old technology, and are in danger of continuing to do so. "We're not going to replace those back-office monoliths managing the loan portfolio overnight. But banks are simply going to be throwing away millions of pounds on developments that simply will not have the flexibility to accommodate changes and developments in the market."

Sun Microsystems (which accounts for 70 per cent of the installed workstation base in the financial market) has made a commitment to OpenStep from NeXT and Microsoft is rumoured to be interested. C.ATS claims applications developed in FiCAD will run on Sun Unix today and on Microsoft Windows 95 when available.

Most people in the industry agree with Mr Beckstrom's assertion that the primary challenge to systems is that of data integration, even if they would disagree with much else.

Steve Husk, of ACT Business Systems, a supplier to the derivatives' industry, notes that there is a need to draw systems together and consolidate. Organisations seem compelled to spend whatever it costs to achieve this, and speed – of systems development and of information delivery – is vital to a company's competitive status.

The problem driving users towards simple "graphical user interfaces" (GUIs) is that dealers have to negotiate complex systems. "What really matters is the skill of the dealer," says Mr Husk. "Taking a position means taking a risk, and a good computer system means you can identify the risks. This makes it doubly important that a system is simple to use, however complex it is in its functions." ACT is one of two UK-originated software offerings that have done well in the derivatives market. The other is SunGard Capital Markets which took over Devon Systems.

Some organisations are exploring "neural networks" for the simulation of risks and the identification of areas of exposure, or even of under-valuation. The systems simulate human intelligence in gathering data and analysing it to make connections and propose likely scenarios.

Keyed up in Frankfurt: trading at the Deutsche Terminbörse

Profile: INFINITY FINANCIAL TECHNOLOGY

Building blocks for traders

Banks and other traders are all facing the same problem of pulling data together from all over the world for analysis.

Even a huge central database is unlikely to manage the speeds and volumes of data required to manage risk effectively. Many of the new wave of products are based on flexible "client/server" architecture, which links workstations to a shared processor. These are unlikely to replace core systems, running millions of loans, but new risk management systems must be able to interface with existing systems, and pass values back and forth.

"There's a general trend towards bringing all these systems under one roof, with commensurate financial activities," observes Roger Lang, president and chief executive of Infinity Financial Technology of Mountain View, California. "There are two compelling reasons for such a move: to make more money, and to cut operational costs."

Infinity's Montage line of products includes development tools and front-end applications tailored specifically for derivatives trading options. Based on Unix open systems architecture, they can contribute to the management of swaps, caps/floors, swaptions, forward rate agreements (FRAs), bonds, money markets, futures, futures options and foreign exchange. Clients include Chemical Bank, Chase Manhattan Bank, Sanwa Bank, ABN Amro Bank, Baring Brothers, and Price Waterhouse. The company claims to be the leading provider of open systems to the global financial services market.

Unlike C.ATS, Infinity sticks to industry-wide tools such as the Oracle and Sybase databases. Chase Manhattan is building its entire back-office and transactions processing for derivatives – specifically exotics – using the Infinity toolset. Analysts believe the attraction is the ability Infinity clients have of building their own exotics, and being able to process them downstream.

While Mr Lang dismisses the PC as a potential liability, client-server architecture, with its emphasis on interconnected personal workstations is more promising. "The PC was not the enabling technology that allowed traders to explore: it was the spreadsheet. But this is a dangerously self-contained tool, a two-edged sword because it gave rise to innovation, but left pools of unintegrated data, at the same time 'juxtaposed' to mainframe systems. Now we have fully networkable workstation environments, whereas before there was the central monolithic mainframe: two completely different architectures, achieving the same thing but with a canyon between them. What client-server and open architecture has allowed is to give power to the personal workspace so that it can finally rival the power of the mainframe."

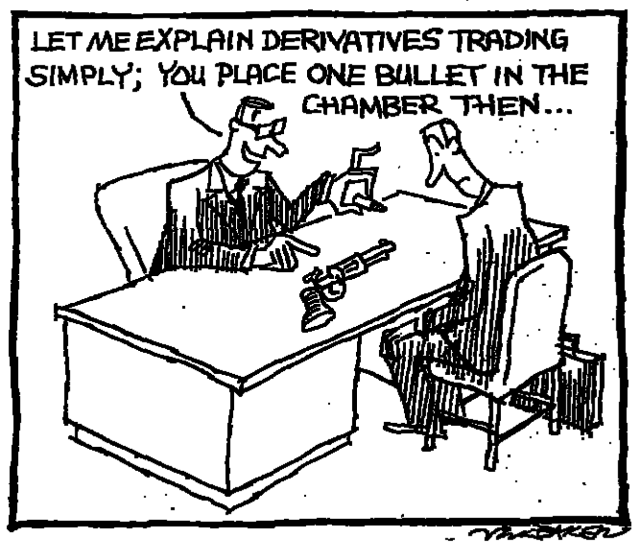
Infinity's approach is to offer a toolset alongside its applications, which leaves the door open for users to write their own systems, or to create "building blocks". Many banks license tools and applications. "We embrace the toolkit approach because of the speed of development" says Mr Lang. "It means that your expensive technology talent doesn't waste time maintaining systems written from scratch. In-house talent can concentrate on the high-priced high-value extras and additions."

The toolkit also enables programmers to integrate previously disparate systems. "In the past " explains Mr Lang, "a portfolio might be managed by different systems, and the only way of bringing together a pool of transactions would be to build separate reporting facilities. The trend is now to pool the data under one roof and drive the reporting from a consolidated set of data.

"Once there is access to consolidated data, a marketer can use the customer information database, with knowledge of the market movement. A trader can go to the market looking for specific trades, and hedge that position. A risk manager can engage in a myriad of analytical and modelling exercises to get a more intuitive profile of the company's risk, and an operations professional can streamline all the different clerical processes and transactions."

Claire Gooding

Roger Lang: the trend is to bring all systems under one roof



Currency risk: Graham Cooper reports

Traders put up the barriers

As many multinationals have discovered to their cost, fluctuating exchange rates can have a dramatic impact on their fortunes. Japanese carmaker Mazda, for example, revealed a loss of Y65bn on its foreign exchange transactions in its 1993/94 accounts. Italian fashion house Benetton, however, achieved a one-off gain of L50bn from some well-timed currency hedges when the lira strengthened against the D-Mark by almost 10 per cent in three months last year.

It is not surprising, therefore, that currency risk is regarded by most corporate treasurers as a more pressing concern than interest rate risk or commodity price risks.

An increasingly popular tool for managing foreign exchange risk is the barrier option which some derivatives dealers say now represents some 10 per cent of all currency option business. This growing interest in barriers contrasts with falling demand for aggressively leveraged products. The derivatives market has grown up this year and the emphasis now is on "putting your risk where you want it", says Fred Stambaugh, global head of currency options marketing with Chase Manhattan Bank.

Like the vast majority of currency options, barrier options are over-the-counter instruments, tailor-made by banks to suit customers' precise needs or market views. There are four basic types – calls and puts, each with either a knock-out or knock-in feature.

A knock-in barrier option pays nothing at expiry unless it is first brought to life as a result of the underlying exchange rate reaching a certain pre-determined level (the barrier). A knock-out option, on the other hand, begins life as a standard option but is killed off if the underlying exchange rate touches the barrier. Because of their uncertain life, they are generally much cheaper than conventional options. They have particular appeal to chart enthusiasts who wish to express ideas about support and resistance levels in their choice of hedging strategy.

Consider, for example, a US company which imports German goods and expects a bill for DM20 in three months' time. If the importer is happy to pay the bill at the present exchange rate of DM1.515/$, he would simply buy a three-month DM call/dollar put with this exercise price. This would allow him to buy the necessary D-Marks at this exchange rate in three months' time. Such an option might cost 2.5 per cent of the underlying amount (DM500,000). It would protect the importer against the dollar weakening against the D-Mark but, if the dollar strengthened significantly against the German currency in the next three months, the option could be allowed to expire unexercised and the DM20m could be bought in the spot market at a more attractive rate.

A knock-out DM call/dollar put would give the same downside protection but only until the exchange rate reaches a level at which the importer feels this insurance is no longer needed. For example, a knock-out option with the same strike price and a barrier set at D1.60/$ might cost only half as much as the standard option. If, at any time within the three months, the spot exchange rate touches DM1.60, the option ceases to exist. The importer could then buy the necessary D-Marks in the spot market at this price and put it on deposit until needed. The user must be able to react quickly in the event of the option being knocked out, as the favourable rate may not last for long.

Despite the undoubted attractions of barrier options, in terms of cost and flexibility, some company treasurers are wary. "We can't price these options ourselves, so I am loathe to recommend them," says the treasurer at a top UK company, who declined to be identified. The extra difficulty in explaining such products to the board is another reason cited by non-users.

Conventional option pricing models are inadequate for the valuation of barrier options and, although leading banks claim to be able to price and hedge most of these structures, they admit it is not always easy. The difficulties are most pronounced when the underlying exchange rate is close to the barrier level as the option approaches maturity. "Hedging some of these options close to expiry is a real nightmare," says Chase's Stambaugh.

To hedge options which they have sold, banks traditionally take an offsetting position in the underlying asset, but the size of this position has to be continually adjusted as the spot price of the asset changes. Close to the barrier the option value is extremely sensitive to changes in the spot value of the exchange rate, so big sales or purchases in the underlying currencies may be needed to keep the position hedged.

As a result, barrier options are generally offered only on the most heavily traded exchange rates such as dollar/D-Mark and dollar/yen. "We are not too keen on doing barrier options where there isn't a continuous spot market," says Paul Jackson, head of foreign exchange options at Midland Global Markets in London.

Hedging of barrier options is one of the hot topics in derivatives research at present, and a favoured solution by many is to use conventional options alongside a long position in the underlying asset to offset a short position in barrier options. This achieves a "static" hedge which does not need continually adjusting and thus greatly reduces transaction costs.

As these cheaper hedging techniques become more widely used, barrier options are starting to be applied to less actively traded currencies.

Another growth area for these structures is in investment products to enhance yield or to allow investors to express a view on two or more assets with a single instrument.

Bankers Trust, for example, has been marketing a call option on a basket of Belgian shares which knocks out if the Belgian franc appreciates by more than 3.5 per cent against the D-Mark. This is an example of an outside barrier, in which the barrier asset is different from the asset on which the basic option is written.

Another popular application in this year's low interest rate environment, says Midland's Mr Jackson, has been to use two knock-out options to create structured notes which pay highs returns provided an underlying asset remains within a certain range. Institutions have been particularly active in selling such notes. A typical example is a one-year dollar-denominated bond which yields some 200 basis points more than conventional one-year paper provided the dollar/D-Mark exchange rate remains within the ranges DM1.48-DM1.68. Many variations have been sold, with a narrower currency range allowing greater yield enhancement.

Try a plain vanilla, or maybe a butterfly

The astonishing growth of the emerging debt market has given birth to a new generation of derivatives, says Ms Alexandra McLeod, of Bank of America, Illinois. Plain vanilla put and call options and structures such as straddles, strangles, bull spreads and butterflies are some of the exotic names of products developed in the rocket science laboratories of the world's leading investment banks

The naked dog basket is not the title of a film showing at your local art house cinema, nor a contender for next year's Booker prize. It is, in fact, an idea for a new financial product – one of the latest to emerge from the "rocket science" laboratories of the world's leading investment banks.

And it provides a graphic illustration of the connections between derivatives and the emerging markets of Asia, Latin America and Europe. The basket of dogs is made up of a selection of Brady bonds, issued in exchange for the rescheduled debts of developing countries.

The dogs are naked because the yield on the US long bond, which in its zero coupon form serves as collateral for these issues, is stripped from the return on the Bradies.

The coupon on the "dogs" is therefore directly tied to the so-called "stripped spread" – the difference between the US long bond rate and the yield on the Bradies.

The instrument is one of the most exotic derivatives trades and there has been limited activity to date.

Nevertheless the wider market in both traded options in distressed and securitised emerging market debt is substantial. Even though activity has tailed off to some extent since the upward move in US bond rates in February, business has grown rapidly over the past two years.

Ms Alexandra McLeod, head of emerging markets at Bank of America, Illinois, said in a recent paper that the "astonishing" growth of the emerging debt market has "given birth to a new generation of derivatives".

The notional value of emerging market options traded in 1992 was estimated at $15.5bn and there has been significant growth since then, with institutional fund managers, as well as hedge funds and specialist boutiques all active in the market.

On offer are plain vanilla put and call options on Brady bonds issued by big debtors such as Brazil, Argentina, Venezuela, Mexico and Poland, as well as the distressed debt of Nigeria and Russia. Increasingly, too, structures such as straddles, strangles, bull spreads, and butterflies, are also available.

Overall options trading has now outpaced the growth of the cash market. "With new participants and broking houses entering the market and increasing its liquidity, volumes seem to be on an upward spiral," added Ms McLeod.

Derivatives on emerging market debt were first sold in 1990, when banks sought to enhance the yield on the debt they were holding by selling covered calls. "If a bank had 60 per cent provisions on its Brazilian loans and the market was at 36, it would be happy to sell a call on its debt at 40, in order to realise a fee," Ms McLeod explained.

Since 1993, a liquid market has developed on all principal assets, with high levels of options activity this year in Venezuelan and Russian debt paper, reflecting high volatility and political risk in both countries.

One reflection of rising interest was the issue earlier this year by the Emerging Markets Traders Association of their own master agreement for over-the-counter options, designed to simplify hedging in emerging markets. The agreement published in April, was accompanied by six recommended market practices for options transactions on emerging markets.

Whereas the International Swaps and Derivatives Association (ISDA) master agreement provides for structures such as collars, straddles and strangles to be built into OTC agreements, the emerging market documentation is simpler, and more geared to plain vanilla put and call options.

Emerging markets: **Richard Lapper** looks at exotic ideas for trades

Of naked dogs and bull spreads

Equity derivatives have been well known in the Asian markets over the past decade, according to traders, with the range extending more recently to Latin American markets. For example, earlier this year the Chicago Board Options Exchange launched an option on a Mexican stock exchange index, based on 10 US listed Mexican ADRs and ADSs.

Component stocks represent a range of economic sectors. One of the stocks, Telefonos de Mexico, is the most widely traded equity option in the US.

On a smaller scale, this year has also seen developments in eastern Europe. In January, the Austrian stock exchange issued warrants, denominated and settled in Austrian schillings, were issued, based on baskets of blue chip Czech and Hungarian equities.

And last month, Citibank announced the launch of a warrant on a basket of 10 Turkish equities, the first ever derivative product on a diversified Turkish equity portfolio offered to both local and international investors.

Many of the products offer investors the chance to leverage up already attractive sounding returns in exchange for greater exposure to the risks.

But derivative instruments can also offer investors a safer and more viable means of entry into the markets. Willy Hemetsberger, vice-president equity derivatives, emerging markets, at Citibank in London, insists that they can eliminate problems linked to custody, documentation and settlement.

The primitive character of custody arrangements in Russia, for example, means that investors may need to travel to a company's headquarters in a remote Siberian town, for example.

Buying into Russia by means of a derivative whose value reflects that of the underlying share is a more practicable option. And in highly volatile markets, derivatives, especially those based on indices or baskets, can help to diversify risks.

By reflecting the value of indices derivatives can also help investors gain access to markets that can sometimes be highly illiquid. "The trick is to develop products that allow investors to participate. You can guarantee the downside," explains Mr Hemetsberger.

And there are increasing signs, too, that within the emerging markets themselves local companies are becoming active users of derivatives, a fact reflected in the emergence of a number of powerful local exchanges.

Last year, Brazil's Bolsa Mercadorias e Futuros was the world's fifth most active exchange, with its interest rate, stock index and gold futures sitting comfortably among the world's top 30 contracts.

What do they mean by that?

Asset allocation: dividing instrument funds among markets to achieve diversification or maximum return.

As-you-like option (or chooser option or the call-or-put option) enables the holder to convert from one style of option to a different style of option over a preset period of time.

Average rate option (or Asian option): an option in which the settlement is based on the difference between the given strike and the average prices of the underlying stock or index on selected dates.

Barrier options: a family of path-dependent options whose pay-off pattern and survival to the expiration date depend not only on the final price of the underlying security but also on whether or not the underlying security sells at or goes through a pre-determined barrier at any time during the life of the option. Barrier options include:

Down-and-out call/put: an option which expires worthless if the market price of the underlying security drops below a pre-determined price.

Down-and-in call/put: an option which becomes effective if the market price of the underlying security drops below a pre-determined price.

Up-and-out call/put: an option that expires worthless if the market price of the underlying security rises above a pre-determined price.

Up-and-in call/put: an option that becomes effective if the market price of the underlying security rises above a pre-determined price.

Best-of-two option (or either-or option or alternative option: provides the option holder with a payoff based on the independent performances of two separate and distinct securities or indices.

Box options: instead of placing cash in a money market instrument and generating interest income, equity options are purchased the payoffs of which create capital gains that can be offset against current capital losses.

Call option: the right to buy a given stock, commodity, index, or futures contract at a fixed price on or before a specified date.

Cap: contract between a borrower and a lender where the borrower is assured that he will not have to pay more than some maximum interest rate on borrowed funds.

Collar: a floating rate debt contract that establishes both a maximum and a minimum interest rate to be paid by the borrower.

Commodity swap: a swap in which counterparties exchange cash flows based on a commodity price on at least one side of the transaction.

Compound option: an option on an option. The holder has the right to purchase another option on a pre-set date, at a pre-set premium.

Contango: a condition in a futures market where the more distant delivery months trade at a premium to the near term delivery months.

Covered call: one of the most popular option strategies, using an existing equity position. Calls are sold on the underlying security with strikes which are higher than the market price. The strike price chosen limits the profit a security holder can realise from the position and this strategy is best used when the holder is fairly certain that there will be little movement in the security's share price.

Currency swap: an exchange of equal initial principal amounts of two currencies at the spot exchange rate. Over the term of the agreement, the counterparties exchange fixed or floating rate interest payments in their swapped currencies. At maturity, the principal amount is reswapped at a predetermined exchange rate so that the parties end up with their original currencies.

Derivative: a contract the value of which changes in concert with the price movements in a related or underlying commodity or financial instrument. The term covers standardised, exchange-traded futures and options, as well as over-the-counter swaps, options, and other customised instruments.

Equity swap: a contract between two counterparties to exchange two different cash flows over time. During the life of the swap one party agrees to pay the rate of return on an equity or the equity index while the other party agrees to pay a floating or fixed rate of interest.

Floor: an aspect of a floating rate debt contract that specifies a minimum interest rate for a borrower.

Forward: an over-the-counter agreement for a buyer and seller to exchange a particular good for a particular price at a specified future date.

Futures contract: an agreement between a buyer and a seller to exchange a particular good for a particular price at a future date as specified in a contract common to all participants in a market on an organised futures exchange. Collateral must be posted for performance bonds, and positions are marked to market at least once a day.

Hedge: a transaction that reduces risk of an underlying security or commodity position by making the appropriate offsetting derivative transaction.

Hybrid security: a complex security consisting of virtually any combination of two or more risk management building blocks – bond or note, forward, future, or option.

Interest-rate swap: the exchange between counterparties of fixed-rate and floating-rate debt in a single currency.

Lookback option: an option the payout of which is calculated using the highest intrinsic value of the underlying security or index over the life of an option. In the case of a lookback call, the highest market price is used whereas for a lookback put, the lowest market price is used.

Put option: the right to sell a particular stock, bond, commodity or index at a specified future date at a specified price.

Quanto option (or guaranteed exchange rate option): an option in which foreign exchange risks in an underlying security have been eliminated.

Risk reversal: this strategy combines the purchase of a put option with the sale of a call option. The put option preserves the capital value of the shareholding while the sale of a call option reduces or eliminates the cost of this insurance, at the expense of giving up some of the upside potential of the stock.

Swap: a contract to exchange a stream of periodic payments with a counterparty.

Swaption: an option to enter into a swap contract.

Warrant: an option to purchase or sell an underlying instrument at a given price and time or series of prices and times. It is ordinarily issued for longer than a year.

Sources: Dictionary of Financial Risk Management, by Gary Gastineau; Option Volatility and Pricing Strategies, by Sheldon Natenberg; Equity Derivatives Glossary, published by Swiss Bank Corporation.

New applications: **Laurie Morse** examines novel ideas for contracts

Rights-thinking strategies

Ronald Coase, the Nobel prize-winning economist, once explained that if it were well understood that trading involved the exchange of *rights* to certain things, rather than the exchange of the underlying things themselves, our universe of tradeable commodities and securities would be far larger than it is.

The people who structure derivatives strategies understand this uncoupling very well. Every day they engineer contracts where the rights to certain returns and their associated risks are disassembled and repackaged to suit their customers' needs.

Once viewed as exotic, derivative instruments used to manage all sorts of market risks – interest rate, currency, commodity, or equity – have achieved widespread acceptance in the financial world. Their primary route of expansion now is through application in new industries where the concept of risk management remains a novel idea.

However, other uses for derivatives are evolving, and these new applications take the craft far beyond managing just market risk. One of these, the evolution of products used to manage credit risk, has had a troubled start, though its supporters say it could become a $1,000bn industry.

Another class of new derivatives focuses on using market forces to allocate scarce resources. These include secondary markets for trading pollution allowances that have been issued as part of the US clean air act. Introduced two years ago as a radical new way to ration pollution while allowing polluters some flexibility when facing regulatory constraints, these products also have not lived up to their early promise.

US futures exchanges in some cases are taking the lead in innovation, trying to expand the risk management capacity of industries as diverse as catastrophe insurance and electricity generation.

Merrill Lynch, Bankers Trust, and Credit Suisse First Boston took the lead in the experiment with credit derivatives. In a logical extension of their success with interest rate and currency swaps, these bankers and brokers saw their customers had a secondary need: a means to manage the credit uncertainties in their portfolio.

Managing credit risk has long been the purview of bankers, and the bread-and-butter of credit rating agencies. Transferring, or trading, credit risk has been nearly impossible without liquidating the cash instrument in question.

However, derivative experts say it is possible to keep a high-yielding, high-risk security in portfolio, and manage the credit risk while still enjoying an above-market return. Brokers are now willing to write an option on the difference, or "spread" on the yield between the high-risk securities and more secure investment like a Treasury security.

The options insulate the customer if the credit risk of his securities increases, while the broker who wrote the specialised option neutralises his exposure by performing an offsetting trade from a global selection of corporate credit deals. These highly-structured instruments are efficient only if the broker has access to a global corporate debt network.

To date, credit derivatives' volumes have disappointed their backers, who say lack of liquidity and efficient pricing are limiting the market.

Another class of new derivatives being developed focuses on using market forces to allocate scarce resources

Making new commodities out of pollution credits, electricity, and even trash have proved equally frustrating. The US Environmental Protection Agency, in writing the Clean Air Act of 1990, surmised that reducing nationwide sulphur dioxide emissions, a key ingredient in acid rain, might be made cheaper and more efficient if polluters had a set of options to choose from.

The agency assigned each main sulphur dioxide polluter (mostly coal-burning electricity plants) certificates representing allowable levels of emissions. If the power generating company chooses to abate its sulphur dioxide output by switching to cleaner fuels or installing a costly smokestack scrubber, it is free to sell its excess allowances to another polluter.

Over time the allowances expire, with US sulphur dioxide emissions due to fall to half of their present levels by 2,000.

Trading experts such as New York-based Cantor, Fitzgerald and the Chicago Board of Trade tumbled over each other to capture this new market-in-the making two years ago. However, time and experience have proven that utilities, quasi-public entities which rarely have to deal with market forces of any kind, do not make carefree traders.

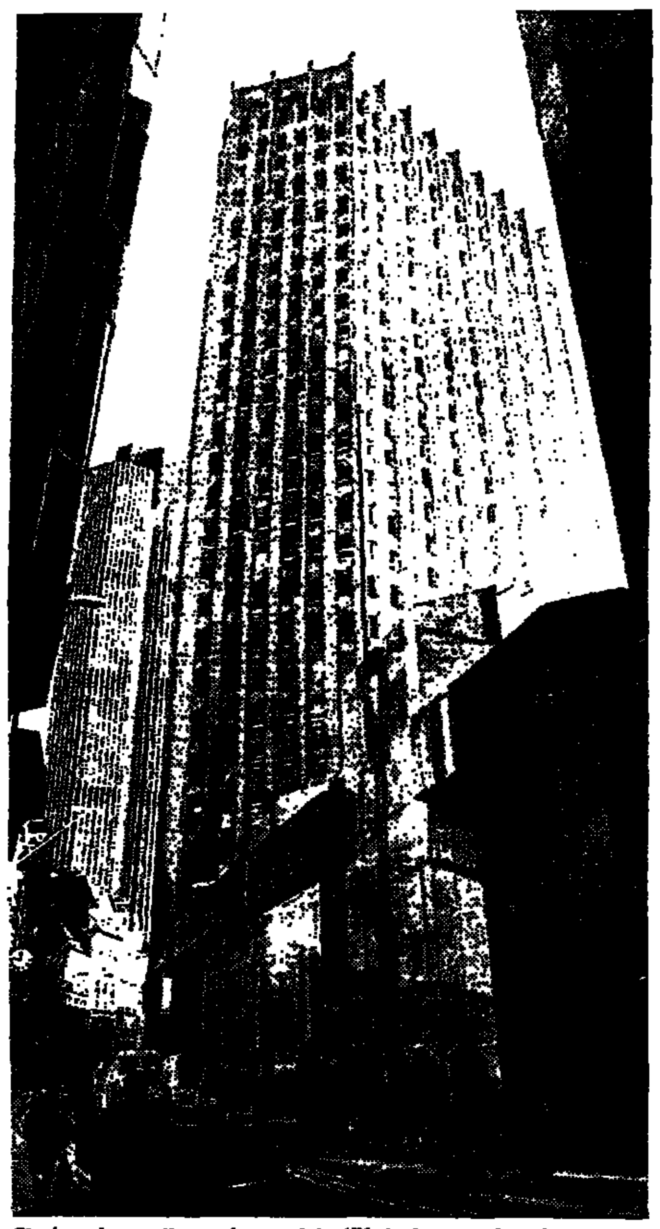
Although the Chicago Board of Trade has conducted two annual pollution allowance auctions, and Cantor and other dealers have brokered private allowance trades, the majority of utilities have banked their allowances and pursued more costly abatement solutions.

Mike Walsh, senior economist at the Chicago Board of Trade, notes that the emission allowance program, to be a success, does not require active trading. "In fact, it's working very well – companies are switching fuel, retiring dirty units, and many companies are trading allowances within their own operations, transfers that don't show up publicly," he says.

Smoking zone: limited trading dashed hopes for a derivative market in pollution credits

However, the limited trading has dashed hopes for a derivative market in pollution credits. Mr Walsh said the Chicago Board of Trade has shelved its plans to trade pollution allowance futures until a viable primary market develops.

In fact, the rapid deregulation of the electric power industry in the US may rekindle interest in allowance trading. However, Mr Walsh and others believe that electric utilities will first learn to use futures and options to price and hedge their electricity output as their markets become freer. The New York Mercantile Exchange, the world's leading energy futures market, has plans to introduce electricity futures within the next year.



Stock exchange: the weakness of the UK stock market has slowed the launch of derivatives products

Equity derivatives: the futures market has increased in importance since the crash of 1987, says **Philip Coggan**

Staggering growth of a product here to stay

The recent furore about the dangers and misuses of derivatives has left equity futures and options untouched.

Equity derivatives were blamed by some for the stock market crash of 1987. But the recent derivatives problems have been concentrated in the bond market, where speculation on lower interest rates caused some corporations and hedge funds to come unstuck.

In fact, the equity futures market has increased enormously in importance since the crash. In London, for example, turnover in the FT-SE 100 Index future has increased from 458,000 contracts in 1987 to 3.1m last year.

While the UK leads the rest of Europe in terms of futures use, it still lags behind the US where equities futures turnover is 10 times the volume of the cash market.

Often, the futures markets will be portrayed as leading the cash markets up or down, although in practice this is probably an unreal distinction. Nowadays, the two markets are inextricably entwined.

A purchase of the index future, for example, is likely at some stage in the chain to result in purchases in the cash market to hedge the transaction. Furthermore, arbitrage keeps the two markets from getting far out of line.

Many investment institutions, which 10 years ago might have looked askance at the idea of using derivatives, have come to embrace the market. "Most equity investors are, by definition, involved in a certain amount of risk. They realise that derivatives can be used to reduce that risk," said Mark Rushton, a director of the investor coverage group at Swiss Bank Corporation.

Many investment institutions, which 10 years ago might have looked askance at derivatives, have embraced the market

If an investor wants to put £100m into the equity market in a quick and efficient manner, then the Footsie future is probably the most suitable vehicle. Options are widely used, but most institutions tend to buy, rather than write (sell). Buying puts is a common means of insurance against a fall in the market or in an individual share.

Some institutions do write calls, which gives them extra income but limits the upside on the security. Writing puts, where the downside is unquantifiable, is much more rare. But SBC's Mr Rushton said: "Some institutions write puts when they have a pot of cash which they are waiting to invest when the market falls."

Over-the-counter options are often used when institutions need to hedge in advance of a particular date, such as a review of their portfolio, which does not fit in with the fixed contract terms used on the exchanges.

Institutions may also use over-the-counter options to hedge against an overseas risk, where their portfolio is not particularly correlated with an index future, for example, if their US exposure mostly consists of small stocks not within the S&P 500.

The problem with OTC options is, of course, the lack of liquidity, which may encourage all participants in the market to pay close attention to the credit risk of their counterparties.

The use of derivatives has also gained a boost from the popularity of "guaranteed" equity products. These products, sold to private investors, combine an element of equity exposure with a guarantee that the original capital will be returned, normally after five years. Institutions which offer such products usually hedge their exposure via the derivatives market.

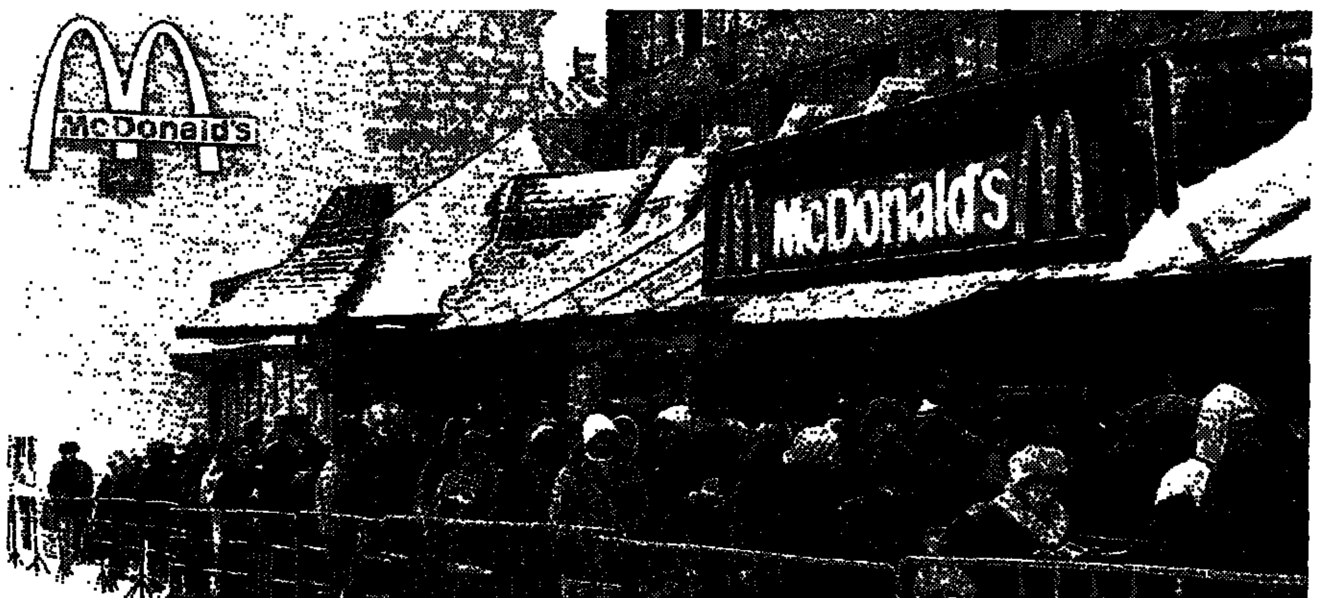
The past few months have seen a slowdown in the launch of such products, perhaps because of the weakness of the UK stock market, or perhaps because of the rise in bond yields and base rates which started to make other products more competitive.

The long-term future of guaranteed products will probably depend on whether the current set of products makes it through the five-year period successfully. If the guarantees are called upon, they must be fulfilled. A product failure would be devastating for private investor confidence.

Guaranteed products quietly disguise their link to the world of derivatives. Funds which more openly embrace the derivatives markets have yet to win over the private investor; Fidelity, for example, dropped its futures funds earlier this year.

Private investors are slowly warming to the idea of entering the derivatives market directly, through the use of options. One development which may encourage such use is the introduction of rolling settlement, which will put a stop to one of the favourite habits of risk-minded private investors - dealing within the account. Options are a natural alternative for such speculative trading.

Of course, such growth carries its dangers, as shown by the reports of private investors' option losses following the crash of 1987. There will undoubtedly be scandals to come, and calls for greater regulation. But the staggering growth of equity derivatives means that *few can doubt such* products are here to stay.



McDonald's, with its huge exposures to currency risk, is one of the biggest users of derivatives among multinational companies *Picture: Tony Andrews*

Effects of bad publicity: **Patrick Harverson** considers the implications

Dark cloud or wake-up call?

The news emanating from the derivatives market this year could hardly have been much worse.

Reports of multi-million dollar losses (Procter & Gamble), collapsed investment funds (Askin Capital Management), companies pushed to near-bankruptcy (Metallgesellschaft) and high-profile lawsuits (Procter & Gamble again) have left a nasty stain on the business.

As one corporate treasurer put it recently: "Derivatives have become a four-letter word."

Certainly, the bad publicity surrounding the business has put many derivatives practitioners – from the bankers that create and sell them, to the corporate treasurers who use them – on the defensive. It has also grabbed the attention of regulators and legislators, who have questioned whether existing supervisory and reporting structures are up to the job of handling the explosive growth in the over-the-counter derivatives market; and it has eaten into the profits the big Wall Street banks and securities houses earn from helping their clients to manage risk.

Yet, amid all the gloom, there are those in the industry who believe the market has already begun to recover from its mid-summer trough, when industry analysts said activity at the high end of the market – where the more complex derivatives are sold – shrank by as much as a third. Bankers Trust, the most active bank in the business, says that derivatives activity actually picked up in the third quarter, and that its earnings from risk management during the first nine months of the year were down only 7 per cent, compared with the record year of 1993.

Also, a few industry participants believe that some good may eventually come of all the bad news surrounding derivatives (although, not surprisingly, it is the bankers who are the most upbeat about the current situation).

Mr Mark Brickell, head of derivatives strategies at JP Morgan, says: "One useful aspect of all the publicity in 1994 was that it stimulated firms to take a second look at their portfolios, to reassure themselves that what they had was what they wanted... That's good for the system."

Another who sees a silver lining in the dark clouds hovering above derivatives is Mr Fred Cohen, managing director at Price Waterhouse's capital markets and treasury practice. He says: "What we're observing now is that for the end-user community [the big corporations, insurance companies, pension funds, foundations and mutual funds], this is a wake-up call. It has pointed out to them some of the risks inherent in these types of product, and has given them cause to reassess the quality of their frameworks for identifying, assessing and managing risk."

Such is the desire to find grounds for optimism in the market, that some professionals have actually welcomed Procter & Gamble's lawsuit against Bankers Trust over a soured interest-rate swap. Although the headlines surrounding the case are only likely to add fuel to the anti-derivatives fire currently raging through Congress (where a few lawmakers see derivatives as the biggest threat to the US financial system since Mr Michael Milken and his junk bonds), bankers hope that the case will answer some important questions.

For example, how much responsibility for educating corporations about the risks involved in using derivative products should lie with the dealer? Also, how much knowledge and sophistication should the dealer assume on behalf of the client?

If the courts rule that it was up to P&G – a multinational company with a long and successful record of operating in the financial markets – to ensure that it was fully aware of the risks involved in buying the disputed contract from Bankers Trust, an important ground-rule may be established.

The upbeat mood among some derivatives professionals, however, cannot disguise the fact that the market has been bruised by the setbacks of this year.

Although the problems stemmed primarily from the sharp rise in US interest rates and the subsequent slump in US and international bond markets – a development which could hardly be blamed on the derivatives market itself – such is the leveraged nature of some derivatives (particularly the more exotic instruments) that the negative impact of rising interest rates has been greatly exaggerated. The damage inflicted left some users and dealers nursing huge losses on their investment portfolios, or from botched hedging strategies.

Consequently, the more conservatively-minded corporate users have been steering clear of the more complex derivatives in favour of simpler contracts that are easier to value and which leave the user less vulnerable to heavy collateral damage from declining markets. "People are more sensitive to what they're buying now," said one derivatives consultant.

Other companies, however, say that they have not changed their policies toward derivatives, primarily because they claim that they do not use the complicated contracts that have been the root-cause of many of the problems. McDonald's, with its huge exposures to currency risk, is one of the biggest users of derivatives among multinational companies. The fast-food group says it has continued to use derivatives as it always has – for basic financing purposes. "We have always been conservative about derivatives," says Mr Chuck Eberling, a spokesman for McDonald's.

One banker at a New York securities house makes a similar point, claiming that the lawsuits and losses have not unsettled corporate treasurers, because, in most large companies, the treasurers are well-versed in the risks of using complex derivative instruments. "They're not scared off by headlines. They know from personal experience what's complicated and what isn't, and which transactions make sense for them." For every Procter & Gamble or Gibson's Greetings (another company suing Bankers Trust over derivatives losses), there are scores of McDonald's, he says.

One clear consequence of the upheavals in the market this year, however, has been a general reassessment by companies of management's responsibilities in tracking the use of derivatives. According to Mr Cohen, of Price Waterhouse, the most important lesson learned this year has been that senior management and company directors need to be better informed of the risks involved in derivatives. As Mr Cohen puts it: "There's been a general acknowledgement that corporate policies need to be better defined and documented, and that there should be a clearer statement of the goals, objectives and risk tolerances of an organisation by its senior management and board of directors."

This reassessment has been partly to blame for the slowdown in the pace of derivatives activity, says Mr Cohen. "Today, companies are using instruments with multiple levels of risk, and there is a realisation that there's a need to have appropriate models and systems to evaluate them." In most cases, companies are looking to outside advisers – investment banks or specialist consultants – to provide the tools for making these evaluations.

One such tool is the "RiskMetrics" risk management system developed by the US bank J.P. Morgan, which is now available to derivatives users. Whether access to J.P. Morgan's "black box" will prevent future derivatives debacles remains to be seen, but judging by the events of this year, some companies need all the help they can get.

هكذا من الأصل

s Philip Coggan

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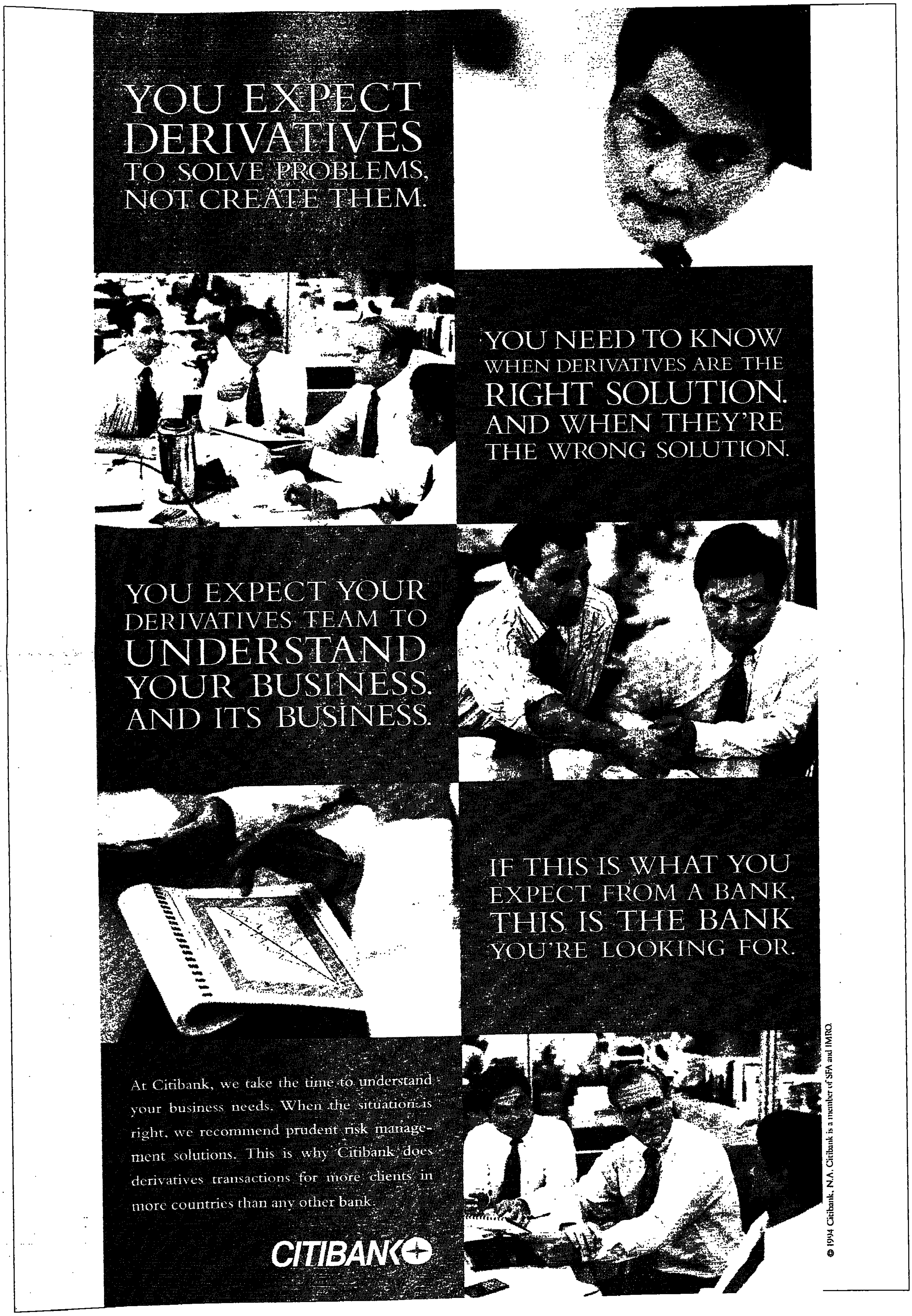
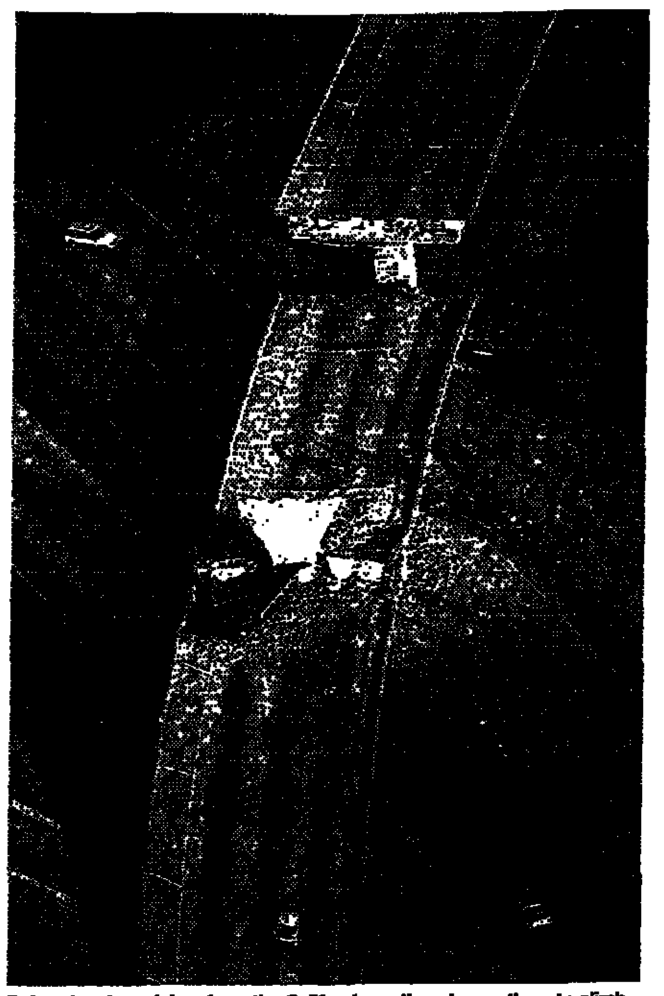


Insurance: **Richard Lapper** discusses an important new development

Reaping rewards from catastrophes



Delayed action: claims from the California earthquake continue to climb

There has seen some important progress in the establishment of a market for insurance derivatives this year – even though sceptics, especially in the conservative insurance industry, are numerous.

In October, for example, the Chicago Board of Trade (CBoT) approved the wordings of four agricultural insurance contracts, which could begin trading in the first half of 1995.

The same exchange has seen a steady growth in trade in its catastrophe insurance contracts, albeit from an extremely modest base.

And in the over-the-counter market there has been an increasing amount of trade in reinsurance policies which incorporate some of the features of an exchange-traded catastrophe contract introduced in 1992.

Perhaps most important of all, sensing the commercial potential of a new derivatives market, US investment banks are investing resources in the business, with specialists changing jobs frequently.

The new agricultural contracts – Illinois soya beans, Iowa corn, Kansas winter wheat and North Dakota spring wheat – were approved by the CBoT on October 18 and must now be approved by the authorities in Washington.

The contracts – known as area yield options – provide a means for hedging against shortfalls in the harvest of particular crops.

Traders select a strike yield for a crop. A holder of a call option might select a strike of 100 bushels an acre. If the actual yield, as assessed by the US Department of Agriculture after harvest, was greater than the strike, the call holder would receive cash. Conversely, a put holder would receive payment if the crop was smaller than the chosen strike.

Morton Lane, managing partner of Lane Financial, a company that advises brokers, says: "It's natural for the CBoT to do this. It means we are committed to this area."

Mr Lane, one of the architects of the new insurance-related market, is also confident about the prospects for the catastrophe reinsurance contracts, launched by the CBoT in December 1992, despite a slow start. Between May and September this year some 6,000 national and eastern catastrophe contracts were traded, 10 times more than in the same period last year.

"It is not enough to satisfy anybody but it underscores there is still interest," notes Mr Lane, who explains that most of the contracts are call spreads, used to limit and isolate a particular layer of risk.

Futures contracts are priced according to moves in a loss ratio, based on figures for claims and premiums compiled by the Insurance Services Office (ISO). The settlement price of each increases by $250 for each one percentage point upwards movement in the ratio. For example, while a loss ratio of 20 per cent would give each contract a value of $5,000, a loss ratio of 120 per cent would make the contract worth $30,000.

Typically, buyers pay for an option to buy a futures contract when the loss ratio exceeds 50 per cent and sell when the ratio exceeds 70 per cent. The arrangements in effect give protection in the same way as an excess of loss reinsurance contract.

More importantly perhaps, the ISO loss index has been integrated into a more traditional reinsurance contract, the loss warranty.

Observers believe that as much as 20 times more business has been traded in these Chicago-influenced loss warranties in the over-the-counter market than at the CBoT itself.

A number of reinsurers' underwriting loss warranty products have begun to hedge their own exposures in Chicago, implying that the same interaction between OTC and exchange-rated products which has helped fuel the growth of other markets, could be beginning in this market, too.

Within the derivatives industry, few doubt that a derivatives market will eventually be established, even though some believe the development could be long term. Bankers Trust, Citibank, and Morgan Stanley are looking into the potential.

Most appear to be interested in trading rather than underwriting risk, but Mr Lane says a number of smaller US investors are considering investment funds which would be dedicated to selling the reinsurance contracts.

In the insurance industry, too, from where, after all, most initial demand will come, there have also been some developments. Zurich Insurance, through its Bermuda-based subsidiary Centre Re, has been an active backer of these alternative products.

Centre Re owns a chunk of Centre Financial Products, a New York boutique investment firm. Richard Sandor, chairman of Centre Financial, is a founding father of the financial derivatives industry and an enthusiastic fan of the development. "It is past its infancy and is starting to crawl."

Insurance and reinsurance brokers, such as Sedgwick, Willis Corroon, Alexander & Alexander and CT Bowring, are also exploring the market. Andrew Martin, managing director of Sedgwick Payne Insurance Strategy, concedes that trading has been slack this autumn and is keen to see modifications to some of the exchange traded contracts.

In particular, some buyers would prefer to see annual rather than three-month contracts, to take into account the actual size of a loss which may not be known for more than six months after the event.

Estimates of claims from the Northridge earthquake in California earlier this year have continued to climb, nine months after the event itself. This questions the usefulness of the current contracts, which cover loss events during a three-month period and are closed after an additional three-month reporting period.

In the meantime, along with others Sedgwick is working on the development of a separate UK or broader European loss index, which would allow for the development of a wider range of products. And Mr Martin remains convinced that the mismatch between the insurance and reinsurance industry's capital base and the scale of potential exposures faced by business should continue to drive interest in derivatives, as a means of attracting new capital into the business.

A sudden increase in the number of catastrophes could make that mismatch appear even starker.

Commodities: **Graham Bowley** on rapid development of the OTC market

Increasing prices heighten interest

Commodities have become a hot topic this year. Explosive price increases in raw materials such as copper and aluminium, fuelled by renewed economic growth across most of the world, has triggered interest in how best to take advantage of these rising prices, while at the same time protecting against the risks that they represent.

The result has been a rapid development of the over-the-counter (OTC) commodities swaps market. The exchange-traded market, highly liquid and transparent and already widely used by many of the large commodity producers and consumers, continues to expand. But it is to the over-the-counter market that many new and traditional users of commodity-linked derivatives are turning.

They are attracted by the flexibility and variety of the instruments offered by banks in this market. Users can buy tools which allow exposure to commodities on terms and over maturities simply not available on the traded exchanges. Exchanges reduce instruments to their lowest common denominator, which everyone can buy, trade and use, but which do not always correspond to an investor's needs. OTC instruments, on the other hand, can be tailor-made to the particular requirements of each individual user.

"There is infinitely more flexibility in the OTC market," said Martin Fraenkel, manager of commodity risk management at Chase Manhattan bank in London. "This manifests itself in a whole variety of swap, forward and option contracts with different settlement periods to the exchange contracts."

At the same time, users are becoming increasingly aware of the vast array of instruments available to them. They are also gradually acquiring a greater understanding and appreciation of the benefits that the instruments can provide.

"Many users really are looking at the market for the first time," said Keith Murphy, vice-president and head of commodity derivatives at JP Morgan in London. "They did not know some of the things we are offering could be done."

"We maintain relationships with 10 to 15 of the world's largest commodity producers and around 90 per cent of these are actively hedging their price risk using the swaps market. We have never been busier," said one banker in charge of commodity derivatives at a bank in London.

But it is not just producers and consumers of raw materials that are turning in increasing numbers to the OTC market. Investors, keen to exploit the spectacular price increases witnessed in many commodity sectors, are looking to the OTC market to gain exposure to commodities.

The result has been the arrival in the market of a number of big operators, such as Goldman Sachs, JP Morgan, Merrill Lynch and other large banks, offering a variety of instruments pegged to different commodity baskets or indices.

In addition, a number of investment funds have recently been created. For example, the BZW commodities trust will invest in various types of OTC derivative instruments with the aim of outperforming the Goldman Sachs commodity index. Fleming is to run a natural resources investment trust, which will get exposure to commodities by buying shares in companies involved in extracting and processing natural resources.

The thinking behind these innovations is that commodities are now ready to be treated as an asset class in their own right – to be used by investors as a way of diversifying their portfolios away from a simple reliance on other assets such as stocks and bonds, as well as a hedge against inflation and a play on economic growth.

Commodities tend to rise in price during periods of economic growth, whereas bonds generally fall in value as inflation and interest rates rise, as has happened in such dramatic fashion this year.

"There is now a lot of interest among investors in using commodities to diversify away from stocks and bonds," said Sohail Jaffer, vice-president in the financial institutions group at Citibank in London.

"Investors are showing a new interest in metals and other commodities," said Mr Murphy. "They have made a leap of faith and at last they are listening to what we have been telling them."

The growth of the OTC market has not detracted from the exchange-traded market, however. In fact, quite the contrary – many of the users of the OTC market and the intermediary banks that provide the OTC products have tended to use the exchanges more and more to hedge their exposures in the OTC market.

The exchanges, such as the London Metal Exchange, which moved to larger premises in the City of London at the end of last month, will continue to play an important role. This is especially true for those investors who require quick and easy access to their investments. Sabre Fund Management, for example, a fund which has $90m under management in commodities, uses only the exchange-traded market.

"We take an active rather than a passive approach to fund management and will not want to hold the same position over the course of, say, five years, but will want to change our positions," said John Demaine of Sabre. "So we use the exchange-traded market for its liquidity and transparency."

Nevertheless, the development of the OTC market looks set to continue. This is in spite of the bad publicity surrounding the heavy losses accrued by some companies, such as Proctor & Gamble and Metallgesellschaft, and the charges that many derivative products are being marketed in an irresponsible manner by some banks.

"Recent articles about losses on derivatives have not had a negative impact," said Mr Murphy. "Instead, they have been positive in focusing both consumers and producers on the pricing risk and on the possibilities offered by risk management."

However, further growth in the OTC market is unlikely to be uniform across all commodity sectors.

"Five years ago the oil swaps sector was booming, but now it has fallen back a lot," said one commodity derivatives trader in New York. "Over the past two years, the natural gas market has taken over, going from five transactions a day to 40 transactions a day now, mainly because of the deregulation of the US natural gas market. So perhaps the next market to boom will be the US electricity market since this is being deregulated at the moment."

Interest rate swaps: **Graham Bowley** looks at an essential tool of risk management

How borrowers cut funding costs

As an essential tool of risk management as well as a means of reducing funding costs, both exchange-traded and over-the-counter interest rate swaps have experienced strong growth in recent years and are now widely used by corporate treasurers.

The amount of interest rate swaps outstanding totalled $6,177bn at the end of 1993, according to the International Swaps and Derivatives Association (Isda), with market growth of 60 per cent last year.

The benefits of using such sophisticated derivative instruments have doubtless continued to be appreciated by borrowers in this year's difficult market conditions. With investor sentiment likely to remain bearish and markets volatile, with business becoming ever more global, and in spite of heavy losses incurred by some companies on certain derivative contracts, the growth of the interest rate swaps markets looks set to continue.

An interest rate swap allows counterparties to exchange the risk associated with borrowing funds at either a fixed or a floating interest rate. For example, one borrower may be able to raise funds relatively cheaply in the fixed-rate market. However, he may require floating-rate funds. He can therefore use a swap to borrow at a fixed rate of interest but exchange the proceeds with another borrower who has a comparative advantage in the floating-rate sector.

In this way, corporate treasurers can significantly cut the costs of funding and at the same time manage their exposure to interest rate movements across a wide range of currencies. The role of the banks in this equation has traditionally been to match counterparties with offsetting borrowing requirements, although as the liquidity of the market has risen, their role is becoming more that of a market maker, making prices in the different swap products.

Although most swap trades are between counterparties exchanging fixed- and floating-rate risk in a single currency, it is also possible to swap between currencies. This allows borrowers to exploit the comparative advantage they may have in a particular currency sector. For example, a borrower may raise fixed interest rate D-Marks but swap them for floating-rate dollars. According to Isda, there was $900bn of currency swaps outstanding by the end of 1993.

A wide variety of swap products can be purchased from and traded on many of the world's derivative exchanges. Large and highly liquid, the exchanges allow investors to switch their exposures from one market to another in a matter of moments. However, being standardised products, exchange-traded swaps do not always meet users' exact needs. Increasingly, therefore, it is to the over-the-counter market that corporate treasurers are turning for their swap needs.

In this market, where the degree of innovation in types of new products has been staggering, intermediaries such as banks offer products which are tailored to borrowers' particular requirements.

In an attempt to compete, *exchanges have developed* more customised exchange products such as Flex contracts in Chicago. However, to a large extent they remain eclipsed by the variety and flexibility in terms of maturity and structure of instruments that the OTC market can offer.

Nevertheless, exchanges continue to play an important role in the swaps market. This is because of their size and liquidity, and not least because they are used by corporate managers to hedge their positions in the OTC market and by the banks, the providers of the OTC instruments, as protection against their exposure.

One of the main reasons for the rise of the interest rate swaps market has been the increasing international basis on which business is being conducted. As barriers between markets, which had forced both investors to rely on limited domestic sectors, have been removed over the past 10 years, many large institutions have begun to focus increasingly on investment opportunities available in new overseas markets. As a result, their funding needs and their income streams have become more varied.

Alongside these developments have been the technological advancements which have made almost instant access to these new overseas markets possible. A greater understanding among users of how derivative products work and a greater appreciation of the value that they can add has also played a significant role in allowing the market to develop.

"Corporate managers are becoming more and more comfortable with the concept of risk management," said Stephen Compton, head of interest rate derivative trading at Citibank in London. "The large corporates are now using swap products in a far more sophisticated way and are exploiting the instruments' full potential."

Bad publicity surrounding the heavy losses on some derivative contracts incurred by companies such as Germany's Metallgesellschaft, and Proctor & Gamble, and the charges that some banks are marketing swaps in an irresponsible manner has done little to dampen market activity. Rather, according to many market participants, it has focused attention on the benefits that derivatives have to offer.

"The publicity has been a constructive warning to the market," said Mr Compton. "The result has been a real push to best-practices."

Germany's Metallgesellschaft had to be rescued by its banks when a trading subsidiary incurred estimated losses of

Swaps enable corporate treasurers to manage their exposure to interest rate movements

$1bn on oil derivatives. Proctor & Gamble has filed a lawsuit against Bankers Trust after losing more than $100m on swaps sold by the bank. P&G claims that Bankers Trust did not "accurately and fully" disclose information about the derivatives contract.

Despite these setbacks, the development of the interest rate swaps market looks set to continue, particularly in emerging sectors such as the Greek drachma market, which has witnessed strong growth recently. There will also be a continued need for sophisticated instruments while market conditions worldwide remain difficult, which looks likely. What is more, derivatives do not rely solely on price rises – they can be used to exploit bearish as well as bullish price movements, so there is no logical reason why activity should drop off as market conditions worsen.

"The development of the interest rate swaps market will certainly continue," said Jim L'Estrange, head of marketing for derivatives in Europe at Citibank in London. "Off-balance sheet risk management tools remain the most efficient way of managing exposures, as well as enabling people to borrow where it is cheapest and then convert the funds to where they were wanted in the first place."

OVER-THE-COUNTER BUSINESS

Swaps outstanding as of December 31, 1993

INTEREST RATE SWAPS				CURRENCY SWAPS		
US$m equiv	% change from year-end 1992	Currency as % of total	Currency	US$m equiv	% change from year-end 1992	Currency as % of total
2,457,043	39.6	39.8	US dollar ($)	320,041	3.6	35.6
131,130	26.2	2.1	Australian dollar (A$)	46,347	-3.4	5.2
31,102	119.5	0.5	Belgian franc (BFr)	6,793	30.7	0.8
437,138	48.3	7.1	British sterling (£)	44,143	10.0	4.9
126,309	28.1	2.0	Canadian dollar (C$)	35,333	-22.2	3.9
9,110	79.3	0.1	Danish krone (DKr)	3,255	115.2	0.4
629,724	82.8	10.2	Deutschemark (DM)	69,689	30.7	7.7
52,052	66.8	0.8	Dutch guilder (Fl)	9,747	31.4	1.1
133,133	43.0	2.2	European currency unit (Ecu)	36,755	2.2	4.1
456,371	228.1	7.4	French franc (FFr)	22,877	44.8	2.5
9,467	90.5	0.2	Hong Kong dollar (HK$)	2,086	185.6	0.2
162,042	178.3	2.6	Italian lira (L)	22,720	3.3	2.5
1,247,444	76.7	20.2	Japanese yen (Y)	158,795	2.9	17.7
6,209	370.0	0.1	New Zealand dollar (NZ$)	2,436	33.8	0.3
42,115	176.6	0.7	Spanish peseta (Pta)	16,998	-15.4	1.9
32,049	81.0	0.5	Swedish krona (SKr)	17,202	15.2	1.9
182,207	29.8	2.9	Swiss franc (SFr)	73,272	5.4	8.1
32,707	47.1	0.5	Other currencies	11,133	-26.9	1.2
6,177,352	60.4	100.0	TOTALS	899,618*	4.6	100.0

* Totals adjusted to account for both sides of a currency swap

Source: International Swaps and Derivatives Association

Hedge funds: **Conner Middelmann** reports

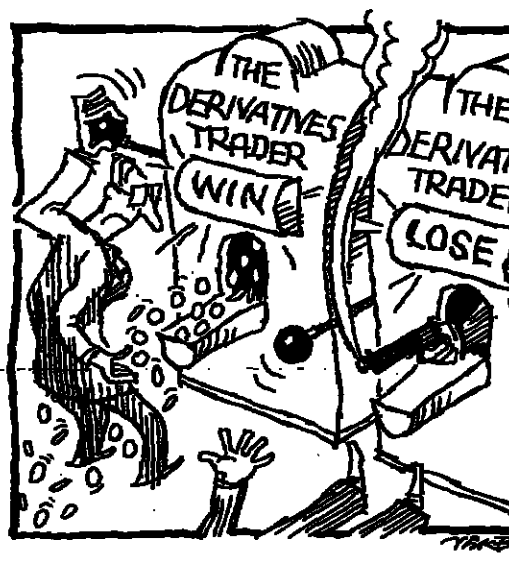
Down but not out

Hedge funds have been blamed for a wide variety of financial market upheavals ranging from the 1993 breakdown of the exchange rate mechanism of the European Monetary System to this year's bloodbath in the bond markets.

Yet, beyond the sensational headlines about the big bucks and big egos associated with this industry, few people have a clear understanding of how hedge funds work. What is more, although hedge fund managers, like many other financial market participants, have lost large amounts of money in this year's market turbulences, talk about the imminent demise of the industry is premature.

"This year has been an aberration," says Dixon Boardman, managing director of Optima Funds, who run some $650m in multi-manager funds. "These people are the great investment brains of the fund management industry, and a great brain doesn't go stupid overnight. They will rise and shine again."

As observers try to assess the success rate of the manifold strategies pursued by hedge fund managers, the debate over what exactly constitutes a hedge fund continues.



Originally, hedge funds were US equity funds which "hedged" against market declines by holding short, as well as long, positions. In recent years, however, funds started using leverage and derivatives to enhance returns and taking large bets on the direction of markets. The picture is further complicated by managed futures funds, which use similar techniques to some hedge funds but invest only in derivatives, rather than cash securities.

According to estimates by Tass, a London-based research firm which monitors some 1,500 absolute-return managers, $75bn to $80bn are invested in hedge funds, which number between 800 and 900 worldwide. With a handful of big players dominating the market, some 35 per cent of that money is said to be managed by about 1 per cent of the fund managers. Meanwhile, some $25bn are under management with about 450 to 500 active futures managers, according to Tass.

"The expression hedge-fund industry is a misnomer," says Joseph Nicholas, president of Hedge Fund Research, a Chicago-based consulting firm. "It has become a catch-all for a variety of skill-based strategies, many of which don't even use derivatives."

HFR have devised a list of 12 typical investment strategies employed by hedge fund managers, and track the performance of each of these sectors on a quarterly basis. These include short-sellers, funds which invest in distressed securities, emerging markets funds, macro funds, convertible arbitrage funds, and merger arbitrage funds.

Rather than putting all their eggs in one basket by picking one particular type of fund manager, many investors choose to spread their money – and their risk – across a spectrum of management styles by buying so-called multi-manager funds. These are funds which are invested with a selection of hedge-fund managers pursuing different strategies.

"We try to blend together a group of these managers and aim to give our investors a smooth ride," says Mr Boardman, who runs such a fund. "In this year's volatile markets, the multi-manager approach has been vindicated," he says, adding: "At Optima, we haven't attended any weddings this year, but I am happy to say we also haven't attended any funerals."

In 1993, most hedge funds, especially those investing in fixed income, produced stellar performances as the global bond market rally pushed yields close to historical lows. With billions of dollars to invest, some of the large global, or macro, participants were unable to take large positions in equity markets and traded the bond and currency markets, the only ones big enough to offer the liquidity they needed.

Steep yield curves enticed hedge funds and banks' proprietary traders to leverage up massively by borrowing money low rates and buy European bonds.

That lucrative game came to an end early this year amid growing signs that the bond rally was overdone. The tide turned abruptly on February 4, when the US Federal Reserve raised short-term rates for the first time in the current cycle, triggering a sharp sell-off in the bond markets and inflicting heavy damage on the most highly leveraged operators.

"We have had a slow, painful bond market crash which has created an extremely difficult environment for many people, and huge losses by some of the big participants have given the hedge-fund industry a reputation it doesn't deserve," says Jean-François Buisseret, managing director of Concerto Research, which advises a Jersey-based multi-manager investment company.

Many macro fund managers also lost money on the mistaken bet that the dollar would rise substantially in 1994.

Among this year's most widely publicised casualties were three hedge fund managers referred to as "the three Davids": David Askin, David Gerstenhaber and David Weill. At the beginning of 1993, their fund management companies had combined equity under management of around $2.5bn; today, after heavy losses, redemptions and, in one case, bankruptcy, that has dwindled to around $70m.

Some of the big macro fund managers, such as Michael Steinhardt, Leon Cooperman and Julian Robertson, also incurred sharp losses due to their high exposure to bond markets. According to Tass, macro funds lost between 18 and 20 per cent in the year to end-October.

Meanwhile, many smaller hedge fund managers employing more specialist strategies managed to protect their downside or even post gains in this difficult environment. "About 60 per cent of money under management in hedge funds showed disappointing results, but in terms of fund managers, only about 20 per cent did really badly," says Mr Buisseret.

As he sees it, specialised niche players, rather than the big macro participants, hold the key to the future. "I am a great believer in specialisation; markets are becoming more and more sophisticated and price movements are increasingly difficult to predict unless you know a lot about the market you are operating in."

However, the macro operators should not be relegated to the rubbish heap of fund-management history, boasting as they do highly respectable long-term track records.

"Looking back over the past five to 10 years, investors in these funds know they still did vastly better than if they invested in conventional funds," says Mr Boardman.

Indeed, despite their poor performance this year, "we are staying with the macro managers and are confident they will recover their losses", says Michael Goldman, managing director of Momentum Asset Management, which runs multi-manager hedge funds.

Abbreviations

Amex	American Stock Exchange
AOM	Australian Options Market
ATA	Agricultural Futures Exchange Amsterdam
Belfox	Belgian Futures & Options Exchange
BM&F	Bolsa Mercadorias & de Futuros
CBOE	Chicago Options Exchange
CBOT	Chicago Board of Trade
CME	Chicago Mercantile Exchange
CRCE	Chicago Rice & Cotton Exchange
DTB	Deutsche Terminbörse
EOE	European Options Exchange
Finex	Financial Instrument Exchange
Futop	Guarantee Fund Danish Options & Futures
FOM	Finnish Options Market
HKFE	Hong Kong Futures Exchange
IPE	International Petroleum Exchange
KCBT	Kansas City Board of Trade
Kanex	Kansai Agricultural Commodities Exchange
Liffe	London International Financial Futures Exchange
LCE	London Commodity Exchange
Matif	Marche a Terme International de France
Meff RF	Meff Renta Fija
MIF	Mercato Italiano Futures
MGE	Minneapolis Grain Exchange
Meff RV	Meff Renta Variable
MidAm	MidAmerica Commodity Exchange
Monep	Marche des Options Negociables de la Bourse de Paris
NYCE	New York Cotton Exchange
NYFE	New York Futures Exchange
Nymex	New York Mercantile Exchange
NZFOE	New Zealand Futures & Options Exchange
OM	Stockholm Options Market
OMLX	London Securities & Derivatives Exchange
Osaka	Osaka Securities Exchange
OSE	Oslo Stock Exchange
Otob	Austrian Futures & Options Exchange
PHLX	Philadelphia Stock Exchange
Safex	South African Futures Exchange
SFE	Sydney Futures Exchange
Simex	Singapore International Monetary Exchange
Soffex	Swiss Options & Financial Futures Exchange
Tiffe	Tokyo International Financial Futures Exchange
Tocom	Tokyo Commodity Exchange
Toronto	Toronto Stock Exchange
TGE	Tokyo Grain Exchange
TSE	Tokyo Stock Exchange
WCE	Winnipeg Commodity Exchange

Milan Stock Exchange: **Andrew Hill** discusses the new stock index future

A symbol of modernisation

The fact that Italians already trade futures on government bonds, but are only now getting round to establishing a future on the equity index tells you a lot about Italian markets.

Government bonds have long been the investment instrument of choice for Italians, particularly for savings. The market is popular and liquid.

But the equity market has been viewed with some suspicion. The fact that a small number of stocks are quoted – only 210 domestic companies are listed compared with twice that number in Germany and France, and eight times in the UK – coupled with a perceived absence of regulation (a law to make insider trading illegal was only introduced comparatively recently, for instance), seemed to make it a market for the brave professional.

In that sense, the introduction of a future on the revamped index of most liquid Italian stocks – the MIB 30 – is being heralded by the stock exchange authorities as the latest and most important symbol of the modernisation of the Milan-based market. It is no coincidence that a presentation on the new equity derivatives market was at the centre of the Italian investment road show in London and New York. The road show also promoted developments such as the move to full screen-based trading of equities, and the gradual transformation from a monthly account system to five-day rolling settlement.

The futures market should be launched "on or around" November 28, according to Ettore Fumagalli, who heads the stock exchange's equity derivatives committee, and the first product will be the MIB 30 index future. The contract will have a face value of L100m – calculated by multiplying the base value of the underlying index (fixed at 10,000 points) by the L10,000 value of each index point, which will also be the minimum price variation of the contract. Trading will take place between 9.30am and 5.30pm (compared with the equity market itself which, from November 28, will trade between 10am and 5pm). Settlement will be in cash.

Potential traders seem broadly optimistic about the prospects for Italian equity derivatives. Some 70 Sims (locally registered securities houses) have signed up to trade on the computerised market. "I'm very confident," says one trader with a foreign bank. "I'm also happy that a limited number of companies has requested machines, because, frankly, the requirements of Consob [the financial market regulator] on capital backing were too low."

In the next phase, the stock exchange authorities hope to introduce an option on the MIB 30 index, and then, probably early next year, options on single shares.

The stock exchange's forecasts on trading volume of the new future are comparatively modest – daily volume of L412bn, half that of the total underlying volume, with around 2,750 contracts traded in about 900 transactions – but the exchange says the impact on the liquidity of the underlying market should be notable. "There should be a positive effect on volumes," agrees Alberto Pasqualone, chief trader at Sigeco in Milan.

In this respect, the introduction of the future comes at exactly the right time. This has been one of the most volatile years in recent memory for the Italian market, which has taken its lead from the constantly changing political scene. Immediately after the March election of a pro-business right-wing coalition, headed by media magnate Silvio Berlusconi, equities surged ahead, prompting a string of opportunistic rights issues. But since June, uncertainty about the coherence of that same coalition, and its robustness in the face of escalating industrial action, has brought the stock market back to pre-election levels or lower

"International investors, who have been extremely active in the underlying market for the past year or so, have been particularly keen to be able to use futures and options, either to obtain or hedge their exposure, or to profit from the volatility of the market," Mr Fumagalli told analysts during the London roadshow.

The Italians are eager to emphasise that unlike in some other European trading centres, both the underlying market and the derivatives market use the same trading system and come under the same regulatory and management authority. "Specifically, we believe that through these advantages, market participants will benefit from the possibility of creating integrated information, research and trading systems," says Mr Fumagalli.

Starting a new market not easy. Other fledgling futures and options markets have struggled with technical and trading problems – in Belgium, the new Belfox exchange took nearly two years from its 1991 launch to overcome teething troubles.

Profile: BM&F, São Paulo's commodities and futures exchange

Stability lifts hopes in Brazil

It was Brazil's soaring inflation and economic volatility that helped give birth to São Paulo's commodities and futures exchange (BM&F), today the fifth biggest futures exchange in the world.

And although inflation has recently fallen dramatically, following the launch of a new currency linked to Brazil's foreign reserves, the BM&F (*Bolsa Mercadorias & de Futuros*) has continued to grow as new uncertainties emerge.

Created in 1986, the exchange has expanded dramatically in recent years. The number of contracts traded jumped to 60m last year from 45m in 1992, while during the first nine months of this year contract volume reached 64m and financial volume was $754bn.

Market analysts hope that following last month's presidential election of Mr Fernando Henrique Cardoso, who helped introduce the new *real* currency and is expected to push for structural economic reforms, Brazil is on the path towards long-term economic stabilisation.

That process is likely to create sustained economic growth and reverse the short termism which dominates Brazil's financial system, as well as increase the assets of pension funds and unit trusts. These factors are in turn likely to increase demand for derivatives from companies and investment funds.

But the BM&F has still to overcome problems, including government restrictions that limit foreign investment and hamper trading links with exchanges abroad. Also, important areas such as agricultural futures generally lack liquidity, which is concentrated in just a few contracts, notably one-day interbank deposit contracts, dollar futures and stock index futures.

Created in 1986, the exchange has expanded dramatically in recent years

Another problem is the narrow customer base, which is dominated by Brazil's banks. They generated much of the exchange's growth in their need to hedge one-day interbank deposit contracts, Brazil's benchmark interest rate.

"There are probably only around 200 customers, nearly all financial institutions," says a São Paulo banker, adding that most company treasurers still do not use derivatives because of the short-term outlook prevalent in Brazil, caused by high inflation. Another reason has been that, despite inflationary volatility, other areas of the economy used to be relatively stable.

For example, the central bank used to devalue the local currency on a daily basis, in line with inflation expectations; but since the new currency was launched the bank has generally not intervened in the foreign exchange market, and instead has allowed the real to float against the dollar. This has created new uncertainties for companies and a growth in dollar futures trading.

Bankers say the small size of Brazil's over-the-counter market, which represents about 10-15 per cent of the BM&F's volume, is an indication of how underdeveloped the use of derivatives by companies is.

But if long-term economic stabilisation is achieved, analysts expect the balance sheets of companies and financial institutions to lengthen, which will probably create more demand for hedging. This process has already begun. Since the real was launched in July, futures contract terms have been gradually lengthening. Mr Marcos Eugênio da Silva, a University of São Paulo economist, expects the next six months to be a period of adaptation to low inflation.

He notes that in the pre-real days, when inflation was 40-50 per cent a month, there was only very short-term liquidity for the key one-day interbank deposit futures. "Now that there are fewer worries about inflation, some interbank deposit contracts are being negotiated for terms of six months," he says.

As well as encouraging the lengthening of contract terms, the BM&F is trying to develop international links, partly to increase the volume of agricultural futures trading, which currently represents 5 per cent of contracts, and also to take advantage of Brazil's position as one of the world's leading agricultural producers.

The exchange would like to attract some of the agricultural futures trading from Chicago to São Paulo, particularly for commodities such as coffee, of which Brazil is the world's leading producer.

However, the exchange has had limited success in establishing liquidity for agricultural contracts. Part of the problem, according to Mr da Silva, is that production in Brazil of commodities such as orange juice, cotton and sugar cane are concentrated among a few companies, which are often suspicious of the futures market. He adds that establishing international links is hampered by Brazil's lack of a stable and convertible currency.

Another problem in creating trading links with foreign exchanges is government restrictions.

Government restrictions also limit foreign investment in the BM&F. Only foreign investors who hold shares on Brazilian stock markets can invest in futures. Foreign investment is mainly in stock index and dollar futures, the latter for investors seeking to hedge the value of their portfolios, and represents 7.5 per cent of total investment, according to Mr Lauro de Araujo Silva, BM&F market relations director.

Liberalising foreign investment would increase speculation and liquidity, say analysts. They point to the example of São Paulo's stock market, where average daily trading volume has increased tenfold to $400-500m since it was opened to international investors in 1991.

"We are seeking ways for international investors to trade here, in the same way as they do in New York or London," says Mr Araujo Silva.

The BM&F wants the government to liberalise foreign investment in order to prevent development abroad of the market for Brazilian stock futures. The US over-the-counter market already trades futures of the Brazilian stock indices and basket options made up of a handful of blue-chips.

Patrick McCurry

Profile: South African Futures Exchange

Interest from abroad rises

Like most other aspects of the South African financial system, the country's derivatives market has come under greatly increased international scrutiny over the past year. And, as they have done after looking over the stock market and banks, most international observers come away generally impressed with the range and sophistication of available products.

The bulk of South Africa's derivatives trading takes place on the South African Futures Exchange, a Johannesburg-based body that celebrated its fifth anniversary this year. Since its formation, it has grown from a small organisation, regarded with some suspicion by local banks and brokers, to a thriving, and rapidly expanding market.

Indeed, Safex's growth has been so dynamic, that at least one local company has fallen prey to the same trap that snared companies in the bigger international markets: banking group Sechold was unable to close its positions at the end of last year and lost R198m.

However, the exchange has largely shrugged off unfavourable publicity resulting from the Sechold affair, and the monthly value of futures and options traded on the exchange has risen from less than R5bn as recently as 1992, to a high of R25bn this year.

The bulk of the trade is done by merchant banks and brokerages, which each account for around 40 per cent of total business, with the rest taken up by a mix of individuals and other institutions.

Reflecting the market's steady growth, the number of exchange members has also expanded steadily and now stands at 82, while the price of a seat on Safex is now around R130,000, comparing favourably with the start-up price of R35,000 in 1988 and well up on the low of R4,000 reached in 1991.

By far the bulk of the trade on Safex is in equity futures, based on the main gold and industrial indices on the Johannesburg Stock Exchange (JSE). Indeed, this market has been so successful that Safex ranks in the top 12 international equity futures markets.

The exchange has also recently made representation to the registrar of financial institutions to begin trading in individual shares. It plans to focus initially on five blue-chips, including industrial giant South African Breweries, and mining houses Anglo American and De Beers.

So far, however, despite heavy government lobbying by Safex members, permission has not yet been granted and there is a strong constituency among established brokers on the JSE who are wholly against such innovations. The plan's detractors charge not only that they are unnecessary because the shares in question are already relatively liquid, but that there is inadequate surveillance to prevent front-running.

Undaunted, Safex is pressing ahead while also experimenting with a number of other instruments. Most notably it is planning to replace its lacklustre dollar gold price contracts, which have failed to excite interest because of South Africa's lack of direct access to the global spot markets, with Krugerrand contracts. These would become the first physically delivered contracts in the country.

There are plans also to sell commodities futures. Although these have normally been the first options available in most countries, given the highly regulated domestic commodities market, they have not yet been possible to implement in South Africa.

However, because of the government's deregulation programme, the exchange hopes to begin contracts in potatoes and meat on an experimental basis shortly.

Other more exotic instruments, including trading in currency and interest rate futures are also available, but have attracted relatively little attention. The former instrument will have to wait for the scrapping probably next year of the financial rand, the investment currency that foreigners have to use to invest in South Africa.

Even without a wide range of derivatives, however, foreign interest is already substantial, accounting for some 10 per cent of all trade on Safex. This year, Safex also formally joined the US-based Futures Industry Association, highlighting its new international profile.

Mark Suzman

Profile: BANKERS TRUST

Forced on to the defensive

Every risk, says the advertisement, deserves a second look.

For Bankers Trust, author of the message, the line must have something of a hollow ring. This year, the New York-based bank has been forced on to the defensive in its risk management business – previously one of its fastest-growing and most profitable areas – by a string of accusations and lawsuits. Did its ambitious strategy in the derivatives business blind Bankers Trust to the risks it was running?

One test will be the outcome of the lawsuits against it, in particular a $130m claim from Procter & Gamble. The fall-out from that case has highlighted three areas of risk and raised questions about the bank's abilities to deal with them.

These are: the risk posed by volatile financial markets, the risk to the bank's reputation when the complex financial products it deals in turn sour, and the risk that regulators will take action against the bank specifically and against the derivatives markets more generally.

Market risk has surfaced in two forms for Bankers Trust this year – as a dampener on its own trading profits, and as a potential threat to the risk-management structures it devises for customers. In the first of these, it can draw comfort from its performance during turbulent world bond markets early this year.

While the markets were awash with rumours of huge losses at Bankers Trust – forcing it to take the unusual step of issuing a denial – the first three months of the year brought a loss of only $49m from trading and proprietary position-taking, followed by profits in the following two quarters which were roughly in line with average quarterly earnings in 1991 and 1992. At a time when many other big traders were taking a bath, from hedge funds run by George Soros to the proprietary desks of banks such as Salomon, this counts as a creditable performance.

For its client risk management business – which creates complex derivatives to reduce corporate or institutional customers' risks to movements in interest rates, currencies or commodities – the upheaval in financial markets could have a longer lasting impact. The complex interest rate swap created for Procter & Gamble in November last year turned sour as US rates rose.

Bankers Trust is believed to have suffered no market losses, since it has a policy of hedging its risks in such cases (according to Procter & Gamble, the hedges used to cover the $200m swap had a nominal value of $3bn - an indication of the huge risks embedded in the instrument). But the swap left Procter & Gamble committed to paying an interest rate of 14.12 per cent above the commercial paper rate for the next 4½ }years, rather than the 40 basis points below CP rate which had been its target funding rate.

Whatever the merits of Procter & Gamble's legal claim, it is clear that the product failed spectacularly.

This highlights the second risk: to the bank's reputation. Arguably, its ambitions in the derivatives business, where it has a clear lead over most competitors, blinded it to the operational risks it was running.

The preliminary results of an internal investigation, which has turned up apparent irregularities in bookkeeping and sales practices in its corporate derivatives business, suggest that internal controls failed (though it is far from clear yet whether this supports the legal claims of Procter & Gamble and Gibson Greetings, which say they were misled about the nature of the financial instruments they bought).

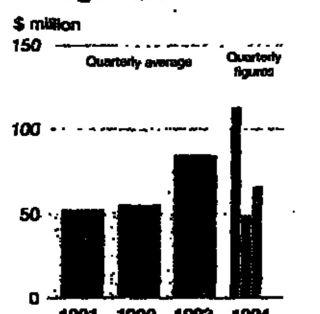
Meantime, }in spite of the bad publicity it has attracted, Bankers Trust's earnings from the risk management business have held up this year. On average, income each quarter this year has matched or exceeded the experience of recent years – despite fall-off in position-taking by hedge fund and other so-called "directional" traders.

"The biggest impact this year has been the fall in the market. It is holding back hedgers and view-takers at the same time," says Brian Walsh, head of derivatives, Bankers Trust.

Despite this, greater demand from corporate and institutional customers, including strong growth in the business in Europe, means that the bank continues to grow. "Our risk management advisory teams are very busy," says Charles Sanford, chairman of Bankers Trust.

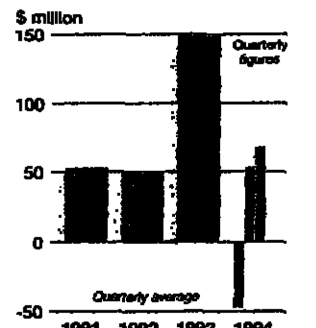
The third risk is still harder to quantify, but could have longer-term repercussions: that zealous regulators will make the derivatives markets a less profitable place to do business.

Client financial risk management



Source: Bankers Trust New York

Trading and positioning



Source: Bankers Trust New York

The threat of derivatives regulation from Congress has died, at least for now. But both the Securities and Exchange Commission (SEC) and the Commodities and Futures Trading Commission are looking into the claims against Bankers Trust – the first clear sign that both agencies, feeling the heat from politicians, want to establish some jurisdiction over the over-the-counter swaps markets.

If they are successful, the extra layers of regulation could add to the costs of derivatives activity. Some dealers complain that the SEC's capital adequacy rules would hamper the swaps market.

These are risks for the future. In the meantime, Bankers Trust's results for 1994 so far have been remarkably steady – a testament to the success of diversification and risk management policies designed for just such eventualities. Even during the turbulent first quarter, the bank's return on equity reached 15 per cent. It stayed at that level in the following two quarters.

A bigger challenge will be to lift profitability back to the levels which had put Bankers Trust among the top-performing US banks since the turn of the decade. Last year's return on equity of 26 per cent was the fourth consecutive year the bank had topped 20 per cent.

Matching that will not be easy. Most analysts agree that 1993 was an exceptional year in financial markets that will not be repeated for some time. And even matching the absolute level of trading profits of earlier years will not produce a superior return on capital in the future, given the much higher levels of capital Bankers Trust now carries.

At the beginning of 1990, the bank's total shareholders' funds were $3bn: by the end of September this year, the figure had jumped to $4.5bn. That may make Bankers Trust a better capitalised bank, but it leaves open the question of how it can grow its profits.

The answer depends in part on whether Bankers Trust can employ its capital as profitably in future in the proprietary trading. "We think that [it] will be a good business again," says Mr Sanford.

Has the amount of capital committed to the market by hedge funds and the proprietary desks of banks changed the character of markets, making it more difficult to identify "directional" trends? "No, I don't think so," says Mr Sanford. "There's just more volatility."

Richard Waters

Richard Waters re-examines the Metallgesellschaft hedging strategy

Case study for business schools

Metallgesellschaft's disaster in the oil derivatives markets is destined to remain a favourite business-school case study for years to come.

Was the hedging strategy undertaken by the group's US subsidiary, MG Corp, fatally flawed from the start? Or was it a panic by the group's supervisory board in Germany (along with its bankers) that led to eventual "hedging" losses of more than $1bn?

With a batch of prominent US academics pointing the finger at the supervisory board in recent months, this arcane subject has taken on an unusual twist – prompting Metallgesellshcaft and its lead banker, Deutsche Bank, to mount a public defence of their position.

The facts are these. MG Corp signed long-term contracts to supply oil products to customers in the US at fixed prices. Then it used futures and swaps to protect itself against a rise in the oil price, which otherwise might have destroyed the profit margins on the supply contracts.

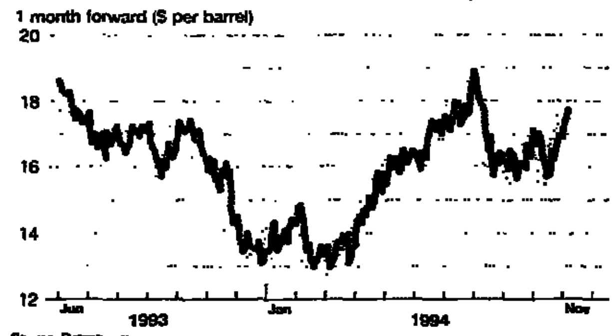
During 1993 – and especially in the final three months of the year – the oil price plummeted, hitting the value of the derivative instruments held as hedges. In theory, that would not have caused a problem over the long term: if the oil price remained low, the derivatives losses would be balanced by higher profits on the oil supply contracts over time. But in the short term, MG had to pay out over $900m in the form of additional margin on its futures positions, and extra collateral to counterparties on over-the-counter swaps.

The result: a liquidity crisis of massive proportions, leading to an emergency line of credit from banks and a forced unwinding of most of the company's derivative positions (and, apparently, also of its underlying supply contracts).

According to the academics, this is where MG went wrong. In a joint paper, Professor Merton Miller, a Nobel laureate, and Christopher Culp, a graduate student, argue that the company's "problem was not with its derivatives group, but more likely was with its supervisory board and supporting banks who may not have understood the hedging strategy and forced the premature liquidation of [its] hedge positions."

A paper by Culp and Professor Steve Hanke, of John Hopkins University, puts it more strongly still: MG's "real operational risk was not that its supervisory board noticed the 'problem' too late, but rather that it misdiagnosed the problem entirely." It is not just the company's board that is criticised: mistakes by regulators in the US also precipitated the losses, they claim.

Brent crude oil



Source: Datastream

There are three questions at the heart of the case.

■ First, did futures regulators and the Nymex, where MG bought oil futures, add to the problems and indirectly force MG to liquidate its holdings? As the company's liquidity problems emerged in early December last year, Nymex doubled the company's margin requirements, adding to its cash problems. Later, it also took away the company's hedgers' exemption, effectively halving the position limits it was allowed to maintain on the exchange and preventing it maintaining its hedge positions.

According to an MG spokesman: "The liquidation was, for the most part, determined by the unwillingness of OTC counterparties to trade with MG and the order by the Nymex to trade for liquidation purposes only."

For its part, though, the Nymex's main concern was to protect the integrity of its clearing process and prevent MG's losses hitting other members. Could it really be blamed for failing to extend privileges to a company that had brought a liquidity crisis down on itself?

■ The second, and most significant, question is whether, by liquidating its positions, the Metallgesellschaft board turned what were only paper losses into real ones.

The unwinding was precipitated by the German group's bankers, who balked at extending further funding to support the group's hedging strategy.

"This funding problem was the result of MG's creditors not understanding [its] fundamental financial position," according to Professor Franklin Edwards, of Columbia University's business school. "They should have been willing to lend against the specific collateral of these [derivative] contracts."

Professor Edwards is joint author of a textbook on futures and options with Ms Cindy Ma, herself a risk manager with MG Corp during the fateful period.

What this argument fails to take account of, though, is the funding costs that MG would have faced while waiting out the 10 years of its long-term supply contracts (and, according to the company, many of those contracts were structured for the bulk of the deliveries to be made right at the end of the ten-year period). Given its liquidity problems, the company's cost of funds would have been high indeed.

Also complicating the question was the fact that MG was losing money every time it rolled over its oil futures contracts. On each rollover date, as it sold expiring futures contracts and bought new ones to carry the hedge forward, MG had to pay more for the new contracts than it received for the old ones (forward prices were higher than current ones, the equivalent of a positive yield curve).

According to MG, this "rollover cost" amounted to $20m-30m in each of October and November, and would have been $50m in December.

■ The third question: should MG really have rushed to unwind its derivatives positions at what turned out to the be the very bottom of the market? Oil prices have risen around $4 a barrel since last December. Assuming MG had an open position of 150,000 barrels (as stated in a lawsuit brought against the company by its former head of risk management, Arthur Benson), it would have reduced its losses by $600m if it had waited until now to sell.

According to MG, though, the position it was rolling over in the market each month was so big that it was distorting the normal equilibrium of supply and demand. The company says its massive position was equivalent to 85 days' worth of the entire output of Kuwait. "It is incorrect to assume," says an MG spokesman, "that the market would have rebounded if the company continued its scheme."

There is one other aspect of this sorry tale that deserves note. Having unwound many of its original supply contracts along with the derivatives, MG Corp no longer had the same need in the future to buy huge amounts of oil and oil products to sell on to customers.

It had earlier signed long-term contracts to buy oil products from a US refining company, Castle Energy, at an agreed margin over market prices (MG also bought a large minority stake in Castle). In September, MG reached an agreement to terminate those contracts – at a cost, in terms of the debt and other claims over Castle it has given up, of around $500m.

Health hazards: **Conner Middelmann** looks at one of the City's most physically demanding professions

A pitful of stress and strain

Warning: derivatives trading can seriously damage your health.

Whether they are scrambling around a trading pit in their brightly-coloured jackets, wildly gesticulating and shouting prices, or hunched over the keyboard of a screen-based trading system, eyes glued to the screen in neon-lit, smoky offices, futures traders have a tough life.

"This is one of the toughest, most physically and mentally demanding professions in existence, apart from professional sports," says the floor manager of a large member firm of the London International Futures and Options Exchange (Liffe). "The pressure you have to deal with on a daily basis can be unrelenting and absolutely merciless.

Being in an environment where hundreds of millions of dollars, pounds or D-marks change hands each day, where markets can gyrate in roller-coaster fashion and where a split second can mean the difference between making or losing fortunes can offer an immense stimulus. "When you're on a roll, it's exhilarating, it's like a drug," gushes one dealer.

But even when traders are on a winning streak, the demands of their jobs are immense, and often take a heavy toll on their health.

For a start, there are the purely physical side-effects.

In a trading pit, such as the ones found on Liffe, dealers stand in octagonal, tiered arenas, buying and selling futures contracts through the use of hand signals, reinforced by vocal price dissemination – hence the term "open outcry".

This exerts high demands on various parts of their anatomies, beginning with their vocal chords. "If you're in this business long enough, you tend to go hoarse – as I have," rasps one of Liffe's old-timers.

Foot problems also abound. "When you're standing around all day, you tend to get swollen feet, callouses and lots of dead skin," complains one trader. Orthopaedic shoes are hardly an option. "If you appear in a pair of Scholl's, you'll have the Shoe Committee on your back," he laughs.

The so-called Shoe Committee, a regular source of hilarity for Liffe dealers, is a self-appointed "watchdog" made up of floor traders who derive amusement from keeping "unsuitable" footwear – such as Doc Martens, brown or suede shoes – off the floor.

The tight throng of human bodies in the pits also makes them perfect breeding ground for bacteria, which are transmitted through droplet infection as dealers shout out prices. "If one person comes in with a cold, the next day half the pit will be sneezing and wheezing," says a trader.

And then there are the odours which inevitably arise when hot, sweaty humans are packed together in restricted space. "Bad breath, sweat, and other unmentionable smells," sighs a dealer.

In an environment where tensions run high and fully grown men – for only 30 per cent of the floor population (including broking and administrative staff) are female – jostle for space in small pits, market participants can come to blows, a not insignificant health hazard considering some of them are former boxers and many play contact sports such as rugby.

"There are many reasons for fisticuffs," says a Liffe dealer. For one, he says, "working conditions are appalling – we're crowded into the pits like rats in a small cage and have to perform an exacting function where mistakes are not tolerated." What's more, many dealers trade their own money, and "when they lose money, they can lose their temper", he says. In volatile markets, these factors can create a highly charged atmosphere where people may be tempted to use physical violence – a temptation to which some occasionally yield.

"Heated arguments tend to occur in the more volatile pits, such as bunds and Italian government bonds," says Dorian Hart, floor manager on Liffe for BZW Futures.

However, the price of physical violence in the pits is high: a strict code of conduct is enforced by close supervision of the Liffe trading floor, and offenders face harsh fines. Liffe penalises offenders much more heavily than a court would do for the same offence, with fines for violent behaviour – which includes pushing and shoving – running as high as £5,000. The ultimate sanction for repeated misconduct is suspension from the trading floor – effectively a one-way ticket into unemployment.

"The exchange comes down very, very hard to ensure that business is not disrupted," says a Liffe spokeswoman.

Screen traders face different but similarly debilitating complaints. At Europe's largest electronic exchange, Germany's DTB, dealers trade futures and options on stocks and bonds on a screen. Unsourced bid and offer prices appear on a screen and traders press keys on a keyboard or click a button on a computer mouse to buy or sell. This means that dealers have to continually monitor changes in prices, not just in the front-month but also in back-month contracts, requiring their eyes to rove constantly around the screen.

"Eyestrain and back strain are typical complaints," says Karl Haeling, head of Deutsche Bank's futures and options group in Frankfurt. "You need to stare intensely at the screen all the time, the lighting may not be optimal and the chairs can be uncomfortable."

Others complain of repetitive strain injuries which can occur when making a certain movement over and over again. This is a common affliction among keyboard operators, involving tendon injuries and sometimes chronic conditions which can lead to early retirement.

In countries where smoking on trading floors is permitted – for instance in many German banks – dealers often smoke while trading, especially when the markets are choppy and tensions mount. "Traders are nervous, nervous people often smoke, hence most traders smoke," quips François Bloch, a long-time DTB trader. Obviously, inhaling smoke – be it one's own or that of a colleague – is a further health hazard.

The psychological impact of the stresses and strains of this job can be as serious as – if not more so than – the physical side-effects, and psychological burn-out can lead to a variety of stress-related illnesses.

"You are on edge all day, from the moment the pit opens until the moment it closes," says Mr Hart of BZW. "Often, your brain doesn't get any time to think, it's purely reactive," he adds.

This breeds a wide variety of stress-related afflictions, such as eczema, ulcers, nervous twitches, heart problems and alcohol abuse, says a dealer. "If people feel they need a drink after work, I call that alcohol dependency – although I'm sure not everyone would agree with me," he says.

Moreover, "the globalisation of financial markets and the increase in computer technology makes for longer and longer trading days, which leads to greater burn-out," says Deutsche's Mr Haeling. On Liffe's bund contract, for example, the nine-hour trading day is followed by about 1½ hours of electronic "automated pit trading". The creation of Globex, the 24-hour electronic trading system jointly developed by Reuters, the Chicago Mercantile Exchange and the Chicago Board of Trade, keeps markets going around the clock.

There are many ways dealers try to unwind after a long day's toiling. While some opt for less regenerative pastimes such as drinking or gambling, many seek to improve their health and stamina with the help of regular exercise. Cannons Sports Club, a health club located in the same building as Liffe, is frequented by a large number of dealers who let off some of their steam by pumping iron or thrashing a squash ball around.

However, for dealers with families it is not always easy to make time for sports, especially if they have a long journey to work. "As it is, I spend 12 hours a day away from home – am I supposed to tell my three-year-old kid: 'Daddy would love to play with you, but he has to go and work out'," asks one dealer.

Alas, many of the City's stress-sufferers do not actually acknowledge that *they* feel mentally or physically stretched.

"People who come to us will not necessarily present stress as their primary problem," says Dr John Briffa, who runs Cannons' Health Enhancement Centre. The centre screens clients' health and lifestyles and makes recommendations on how they can improve their physical and mental well-being.

"Working in the City is inherently stressful, but a lot of people don't acknowledge that," he says. For one, he says, it's because "everyone else is stressed, so they think it's the norm".

But even when they are aware of the stress burden, "there's a fair degree of machismo in the City that doesn't allow them to admit that they can't cope."

Although the demands of the job sound daunting, it manages to attract all types: the huge, broad-shouldered rugby-player types with booming voices; the small, agile operators; and a growing number of women. "There is no one stereotype: the types who survive *and do well* are at absolute extremes of the scale," says Alex Lamb, a former pit trader and now general manager at Fimat in Frankfurt.

While some still feel that *big is best* in the open-outcry environment, traders' physique is not as important as their social attributes, he says. "A good trader needs a sharp memory, a high degree of numeracy, eyes like a hawk and strong communication skills."

Screen traders do not have to be as extroverted as their colleagues in the pits. "At the screen, you can be a shy and retiring guy and still wipe the floor with the rest of the market," says Mr Lamb.

"In some respects, you could think of it as The Revenge of the Nerds," quips Mr Haeling.

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FINANCIAL TIMES SURVEY

DENMARK

Wednesday November 16 1994

Economic strength is put to the test

Hugh Carnegy and **Hilary Barnes** see a weakened government trying to cut unemployment, defend a costly welfare system and clarify its attitude to Europe

Mr Poul Nyrup Rasmussen, Denmark's Social Democratic prime minister, pulled off a remarkable political conjuring trick in September.

Although his coalition suffered what amounted to a stinging reverse in the general election – with one member-party failing to win re-election to the Folketing – Mr Nyrup Rasmussen nevertheless returned to power at the head of a weakened but relatively secure three-party government.

By exploiting Denmark's fragmented parliamentary jigsaw of nine parties, Mr Nyrup Rasmussen was able to side-step a surge in support for the right-wing Liberal party, securing the establishment of a minority Social Democratic-Radical-Centre Democrat coalition with the backing of two left-wing groups, the socialist People's party and the Unity List.

As the restored prime minister set about continuing his dogged twin task of attempting to lower Denmark's 12 per cent unemployment rate, while defending its extensive and expensive welfare system, it was left to an eccentric independent candidate to liven up an otherwise dull contest.

Mr Jacob Haugaard, a well-known comedian, became only the third independent to win a seat in the Folketing since 1915. His party of "Consciously Work-Shy Elements" polled 23,200 votes in the city of Arhus, with its promise of tailwinds for cyclists, more boyfriends for single mothers and more gifts from Father Christmas.

The success of Mr Haugaard, clad in his suits sewn from old sacks, amounted to more than just a frivolous side-show in the election. Like all good satirists, he made a pointed comment about Denmark as well as raising a laugh.

The country has grown used to two-thirds of the adult population receiving their incomes from the government, either as dependents on the welfare state or as employees of the government itself. But although the economy is performing more strongly than most in Europe, unemployment poses a long-term threat to Denmark's comfortable system of state hand-outs and safety-nets.

The opposition, spearheaded by the Liberals under Mr Uffe Ellemann-Jensen, the party's combative leader, has argued strongly that reforms to trim the welfare state are needed to create the conditions for significant employment growth. The Liberals won 13 more seats in the election, to hold 42 out of the 179 Folketing seats. But their Conservative and Progress party allies lost seats, dashing the chances of a right-of-centre government.

Instead, the Social Democrats and their allies, promising to sustain and even enhance the welfare state, hung on to power, despite the loss of seven of the SDP's 69 seats and the ousting from parliament of the Christian party, previously a government member.

The result was hardly a ringing endorsement of Mr Nyrup Rasmussen, a rather colourless leader whose central stance since he became prime minister in early 1993 has been a defensive attachment to the welfare system. But the electorate appeared to be willing to give him a further opportunity to achieve the daunting target of turning around unemployment without having to give up the benefits that flow from the state.

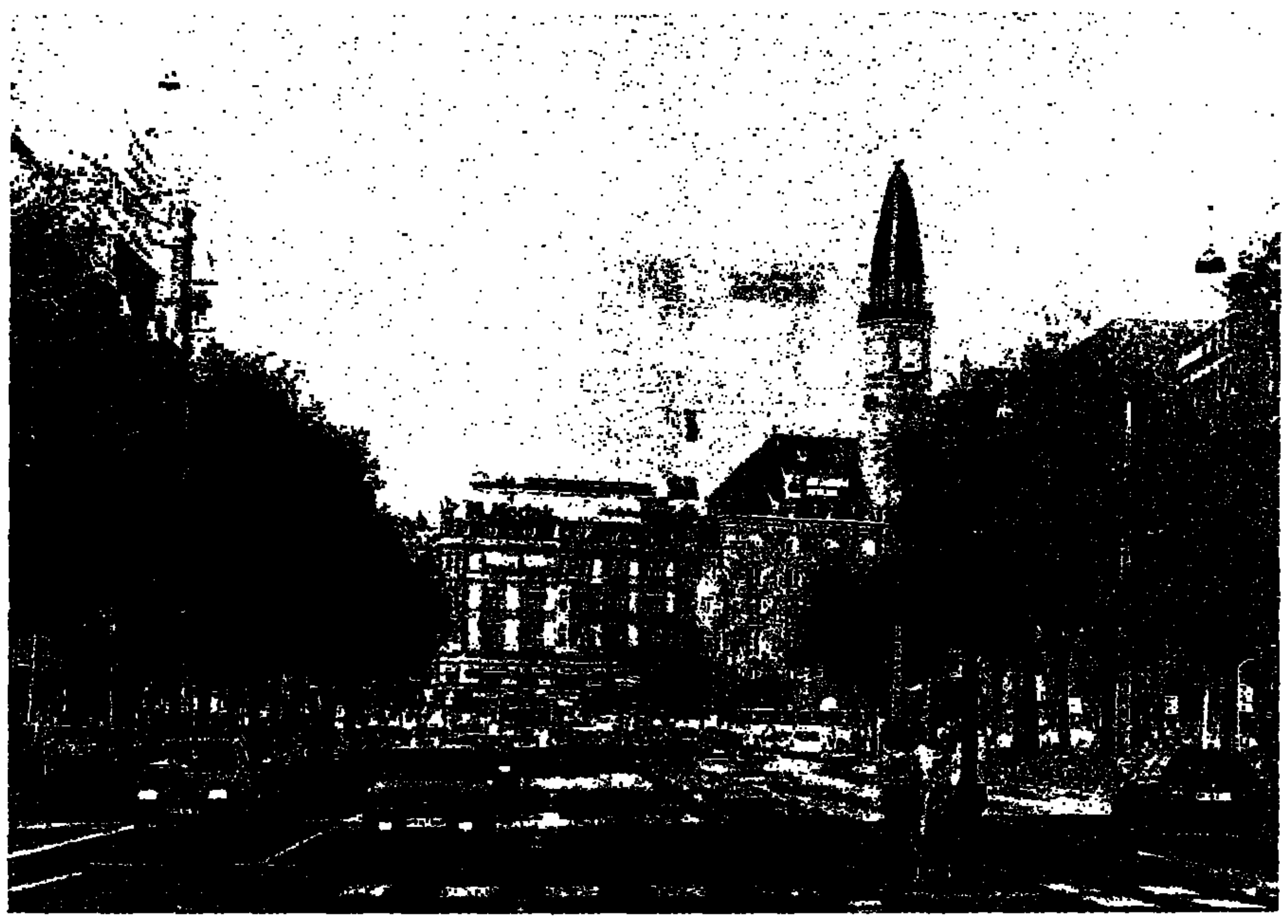
What, then, is the government's strategy for meeting these expectations?

The first step is to enact a 1995 budget that trims a budget deficit which has grown over the past two years following a relaxation of fiscal policy made to help stimulate the recovery. The government's budget proposal aims to reduce the general government (including local authorities) financial deficit next year to close to 3 per cent of gross domestic product, the upper limit set by the European Union in the Maastricht treaty as one of the covergence criteria for European monetary union.

A more restrictive fiscal stance will be one of the factors holding down 1995 GDP growth to around 3 per cent, compared with expected growth of up to 4.5 per cent this year. But the government recognises that it must reduce the share of GDP accounted for by public expenditure – at 60 per cent, second only to Sweden in Europe – to ensure the national debt, interest rates and inflation are kept under control and conditions for steady employment growth secured.

To do this, it is likely to seek support for its budget from the Liberal and Conservative parties, rather than from its left-wing allies. "We had support from the Socialist People's party to form a government. But we have told them from the beginning that, in respect of the budget, there will be no step out of line from the guidelines we have set for a reduction in expenditure and a reduction of the deficit," says Mr Mogens Lykketoft, the finance minister.

It's business as usual in central Copenhagen, while prime minister Poul Nyrup Rasmussen (above) copes with a parliamentary jigsaw



The government has also set in train a tax reform to lower the country's high income tax rates, shifting the burden towards so-called "green" taxes such as higher petrol prices, increased taxes on CO_2 emissions and other similar measures.

At the same time, it is looking to active labour-market policies to reduce unemployment. It is committed to ensuring that collective wage agreements, in the two-year wage round due to be negotiated over the next few months, are moderate and exert no upward pressure on annual inflation, which is currently running at around 2 per cent.

But the core labour market strategy is to enhance skills levels and promote job-sharing, rather than to dismantle Denmark's high minimum-wage and benefit levels. This year, the government's main response to unemployment has been to promote a "leave from work" scheme which allows people state-subsidised time off from work (up to one year in every five) to study, rear their children or simply take a break. At present, more than 75,000 are on such leave.

The right-of-centre opposition and most business leaders are highly critical of this approach, saying it has little real effect on unemployment and can even create labour shortages in some sectors. Most notably, the health services have been forced to look abroad for nurses to compensate for the absence on parental leave of some 3,000 of the country's 45,000 nurses.

The government's critics argue that it is unrealistic to expect that training schemes can lever most of the unemployed – some two-thirds of whom are long-term unemployed – back into jobs. "You cannot make a computer programmer out of someone who is a potential doorman," commented one senior Danish economist.

Instead, they call for measures such as lower unemployment benefits and lower minimum wages to price more people into work. Without that, they say, Denmark will not be able to generate the service-sector and small-company jobs growth that the government is seeking to lead the way to lower unemployment.

Despite the minority position of the government, however, it seems likely to be able to survive, thanks to the lack of a realistic alternative coalition. Mr Ellemann-Jensen hopes to woo the Centre Democrats back into the Liberal-Conservative camp (the three parties were in coalition during much of the 1980s). But the party shows no sign of being prised loose from the present government, at least until after the next general election.

In the meantime, an issue which may strain the government is Denmark's relationship with the EU. Next year, Mr Nyrup Rasmussen faces the task of formulating the country's position for the EU's 1996 intergovernmental conference which will review the Maastricht Treaty on European union.

Denmark only approved Maastricht in a referendum last year after it had secured agreement from its EU partners to opt out, if it so chooses, from key provisions covering EMU, the formulation of a common defence policy, EU citizenship and some legal matters.

Many Danish leaders, including some senior Social Democrats, are beginning to argue that Denmark should be prepared to drop these exemptions in order to play a full role in the EU's development, a step that would require a further referendum. But the Socialist People's party and the Unity List – the latter a fiercely anti-EU organisation – are resisting such a move. Mr Nyrup Rasmussen's hope of achieving a consensus position going into the IGC looks forlorn.

However, the clear referendum votes in Sweden and Finland, Denmark's Nordic neighbours, to join the EU should help the prime minister, as their membership will establish a strong Nordic presence in the Union and bolster support for the EU among Denmark's notoriously sceptical electorate. The effect will be further reinforced if Norway, in its referendum on November 28, also votes to join.

ALSO IN THIS 4-PAGE SURVEY

DENMARK 2

The economy: fears of inflation have receded, says **Hugh Carnegy**

Welfare costs take their toll

Compared with many European countries struggling to overcome recession and high budget deficits, Denmark is in good economic shape.

This year, gross domestic product is set to grow by up to 4.5 per cent after a long period of stagnation or recession, spurred by a fall in interest rates late last year and a fiscal stimulus this year and last from the government.

In 1995, the pace of growth is expected to slow to around 3 per cent, due to the recent reverse in the interest-rate trend and budgetary tightening, which will check this year's surge in private consumption. But there are few worries about this, as the slower pace of growth has helped to calm fears of inflationary overheating.

Inflation has risen along with the pick-up in the economy to a current annual rate of around 2 per cent, but the finance ministry predicts that, over the rest of the decade, it will stabilise around an average of 2.3 per cent.

The loosening of fiscal policy over the past two years has skewed the public finances somewhat, leading to a general government budget deficit projected this year to be more than 4 per cent of GDP. But a tightening of the state's belt in the budget for next year will see the deficit decline towards 3 per cent in 1995.

Exports continue to grow, sustaining a surplus on the balance-of-payments current account equivalent to more than 2.5 per cent of GDP, and holding down Denmark's once-alarming net foreign debt to well below 30 per cent of GDP. The country is well on course to reach its target of meeting, by 1996 or 1997, all four criteria for inflation, public-sector deficits, public-sector debt and interest rates laid down by the European Union as conditions for achieving European monetary union.

Mogens Lykketoft has shifted the burden towards 'green' taxes

"In sum," the Organisation of Economic Co-operation and Development pronounced in August, "having eliminated most of the imbalances built up in the 1980s, the Danish economy seems set for a period of expansion, based on monetary and exchange-rate stability, relatively sound public finances and a favourable business climate."

There is, however, one outstanding blot in this otherwise bright picture. Denmark has suffered for some years from high levels of unemployment. This year, unemployment stands at just under 12 per cent of the workforce. Without any doubt, unemployment poses the biggest challenge to the future structure and health of the Danish economy.

The country, like its Nordic neighbours Sweden, Norway and Finland, has a highly developed state welfare system. But the burden placed on the system by the costs of high unemployment puts it under considerable strain. Although Denmark's public finances are "relatively sound", they have been kept in this condition by the biggest tax burden in the OECD, equivalent to 50 per cent of GDP. Paying some of the world's most generous unemployment and other welfare benefits has pushed up public expenditure to the equivalent of more than 60 per cent of GDP – second only to Sweden among the 24 countries in the OECD.

Mr Mogens Lykketoft, the finance minister, readily acknowledges that, unless unemployment can be significantly reduced, the Social Democratic-led government's primary aim of maintaining the welfare system will be put in jeopardy.

"If you look at the next five to 10 years, if we are not able to change the [budget] deficit into a surplus through a substantial increase in employment, the conclusion must be that we cannot afford the welfare system," Mr Lykketoft said in an interview. "There would have to be a reduction all over – and a reduction in living standards. We have a high level of ambition on social services, but it depends on growth."

The return to growth over the past year has produced a surge in new jobs, leading the finance ministry to predict that the unemployment "curve" will at last begin to turn down. It forecasts that unemployment will fall below 11 per cent next year to around 10.5 per cent. Its aim is for the creation of 215,000 new jobs between this year and 2000, reducing unemployment (coincidentally) to the same level of 215,000, or between 7 and 8 per cent of the workforce.

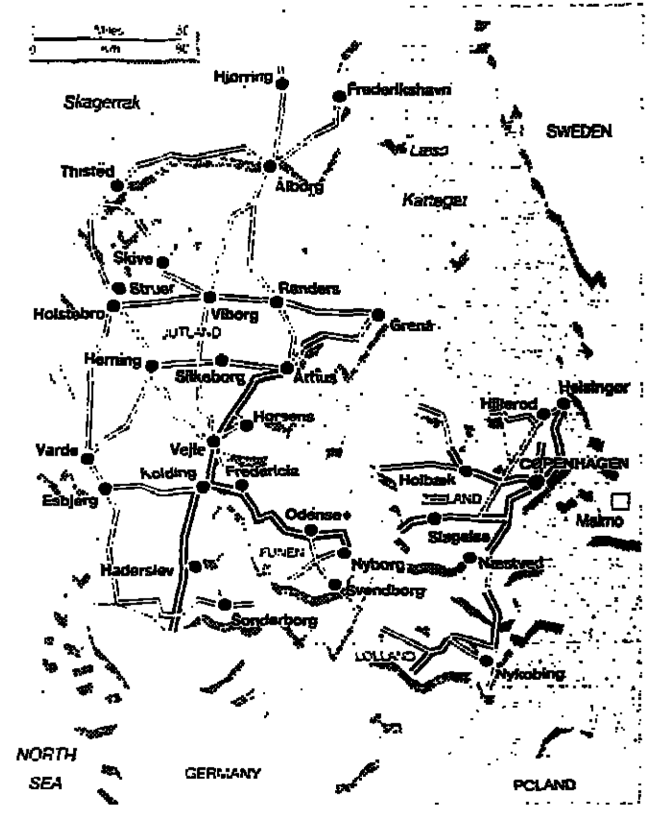
Mr Lykketoft emphasises that the new jobs must come from the private sector. He has already introduced cuts in income taxes, shifting the burden in the direction of indirect "green taxes" on energy, water and packaging. He is committed to keeping the public finances and inflation under strict control.

The government is looking at measures to increase the obligation on the unemployed to take up vacancies. Above all, when it comes to labour-market measures, it is seeking to upgrade skill and qualification levels within the workforce, aiming for high-skill, high-wage jobs to solve unemployment, rather than low-skill, low-wage jobs.

However, many economists and industrialists question whether the government's strategy will succeed. They say that most of the jobless – more than 75 per cent – who are long-term unemployed are not susceptible to significant skill enhancement. They strongly criticise schemes such as the controversial "leave from work" programme – which allows employees state-subsidised time off for retraining, parental leave or sabbatical leave – as an indulgence which risks causing labour bottlenecks and, ultimately, inflation.

Critics argue that, instead, there should be a thorough overhaul of the welfare benefits and labour market systems to price people into work. With the minimum wage at DKr67 an hour and maximum unemployment benefits at DKr132,000 year, they say the basic incentive to work is lacking for many. "Nowhere in the world can you find a system where people can continue on benefits at such a level that the wages they would receive for a job are lower," says Mr Poul Erik Petersen, head of the Danish Employers Association.

But for the time being at least, the government is committed to a path that does not alter the fundamental structure of the existing labour and welfare system. "There is more or less a consensus in Denmark that we should not put adult Danes on lower minimum wages," says Mr Lykketoft. "That means we are excluding some kinds of job, but they are not the main road to increased employment. The ambition is to give people more qualifications to give the possibility of jobs at higher levels."



KEY FACTS

Population .... 5.2 million
Prime minister .... Poul Nyrup Rasmussen
Currency (Krone) at November 4 ... $1=DKr5.974; £1=DKr9.6067

	1993	Latest*
Total GDP ($bn)	134.5	n.a.
Real GDP growth (%)	1.2	3.3
GDP per capita ($)	25,962	n.a.
Consumer prices (% pa)	1.2	2.3
Manuf. production (% pa)	-2.7	2.2
Unemployment (% of lab force)	12.3	12.5
3 month money (%)	10.8	6.6
10 year bond yield (%)	7.3	9.0
FT-A index (% change on year)	43.8	-11.9
Current account balance ($bn)	5.4	4.7
Exports ($bn)	39.0	n.a.
Imports ($bn)	32.0	n.a.
Trade balance ($bn)	7.0	n.a.

MAIN TRADING PARTNERS (1992, % by value)	Exports	Imports
Germany	22.4	22.1
Sweden	11.5	10.8
UK	10.3	8.0
EC	54.0	52.7
Efta	24.5	22.8

* 1994 figures – EIU forecasts. Interest rates (Nov 4, 1994). FT-A index (% change from Dec 31, 1993 to Nov 4, 1994).

Sources: IMF, Datastream, Economist Intelligence Unit

Towards a cashless society

'Coin' cards now used in 27 towns

The Danes have passed an important milestone on the road to the cashless society. They have established the world's first national fully functional "electronic purse" system, using pre-paid smart cards to replace cash in vending machines, payphones, canteens, laundries and parking meters.

After trials in 1992 in the town of Naestved, about 70km south-west of Copenhagen, the development of a national pre-paid card system, known as *Danmont* (literally translated: Dan-coin) began last December. The service is now available in 27 towns, and transactions are increasing rapidly. They were up by 32 per cent to 191,419 from the first to the second quarters of this year, and by 46 per cent to 280,394 from the second to the third quarters.

The use of pre-paid cards is not new. What is new about the Danish system is that it is not a closed system (involving, for example, only the payphone customer and the phone company), but an open system.

There are many card issuers and many service providers, and the card-holder can use the card for all the various services on offer, such as payphone, canteen, newspaper dispenser, laundromat – even, in central Copenhagen, at 10 plug-in points for re-charging the batteries on electrically-operated cars. A debit is made each time the card is used. At present, the card expires when there is no credit left. Re-chargeable cards are the next step.

They have already been developed and are working in Danmoent's laboratory, but they will not be introduced until final agreement has been reached on a European technical standard for smart cards. The system is still in its early days. The number of transactions is tiny, compared with the millions which take place every day using money and other credit card systems.

The card has been introduced initially in selected areas, usually in a vicinity where there are schools and other educational establishments, and where a large number of young people are present.

Mr Henning N.Jensen, managing director of the Danmoent operating company, believes that it will take from five to seven years for consumers to become accustomed to the system, but well before the end of the century he expects that 50 per cent of the population will be using pre-paid cards for most of the daily transactions they now make by cash.

Mr Jensen is a hard person to catch. International interest in the Danish system is so intense that he and many of his staff spend much of their time abroad, advising would-be electronic-purse operators on how to set up a system. So far, no one else has, on this scale, and that, says Mr Jensen, is related to the fact that few other countries enjoy such a system of close co-operation between the banks, and between the banks and the telephone companies, as Denmark does.

Denmark also operates one of the most successful debit-card systems, the national Dankort system, which, since its inception in 1982 for use at retail level, has reduced the number of cheque transactions from 280m a year (1986) to under 100m in 1993.

One of the essential factors for the success of the system was the ability of the banks and savings banks to agree to the establishment of a single-card system, using the clearing system, PBS, which is owned jointly by all 170 banks and savings banks, some of them quite small.

Debit-card systems have been far less successful in countries where the banks have tried to set up competing systems, Mr Jensen noted. Almost every adult now has a Dankort, and it is accepted by virtually all retailers, restaurants, hotels, cinemas, and theatres. There were many initial difficulties in introducing the Dankort system, and considerable scepticism about its future, but within seven years it was in general use.

This is the span of time which Mr Jensen believes will be necessary for Danmoent to become accepted. The system is a logical extension of the existing payments infrastructure. Danmoent itself is owned jointly by the PBS (i.e., by the banks) and KTAS, the Copenhagen telephone company, on behalf of all the phone companies, whose transmission facilities are essential to the system.

Danmoent itself is a tiny organisation of only 18 people. As the system operator, it is responsible for laying down the standards for the hardware, such as terminals, the integrated-circuit cards themselves, and for surveillance of the clearing and security systems, and finally for marketing the system. But Danmoent is not, and has no ambition to become, an equipment producer or supplier. There is complete independence between card issuers, such as a phone company, and service providers, such as a laundromat. Similarly, there is independence between service providers and equipment suppliers, which means that an independent laundromat operator, who does not issue his own card, can nevertheless install a terminal and thus gain access to the system.

In fact, this is what has happened, according to Mr Jensen. The dominant suppliers of washing machines quickly realised the advantages of the Dankort system (one of them is that there is no cash around to attract thieves) and introduced terminals and cards; but other laundromat owners were able to install the same terminals, which accepted the same cards, receiving payment through the Danmoent clearing system, thus staying competitive with the business round the corner from them. It will be some time before Danmoent becomes profitable, because this will require a very large number of transactions.

Meanwhile, the cards are being used as an advertising medium, an extra way of earning money – and the expired cards have become collectors' items.

Hilary Barnes

Tomorrow you may not need to queue for cash — Tony Andrews

The country must shortly re-examine its attitude towards Europe. **Hugh Carnegy** sets the scene

Dissonant voices raised over opt-outs

Over the next year, Denmark's awkward relationship with the European Union is likely once again to become an awkward and potentially divisive domestic political issue.

Most Danes must have hoped that the EU would slide out of the political frontline for some time to come when they voted in May last year, at the second time of asking, to accept the Maastricht treaty on European Union.

Denmark had thrown the EU – or the EC as it then still was – into turmoil in June 1992 by rejecting the treaty in a referendum, threatening to derail the whole project. A year later, after securing a series of "opt-outs" on key Danish objections to Maastricht, Copenhagen managed to save its own blushes and the blushes of Brussels by winning a Yes vote in a second plebiscite.

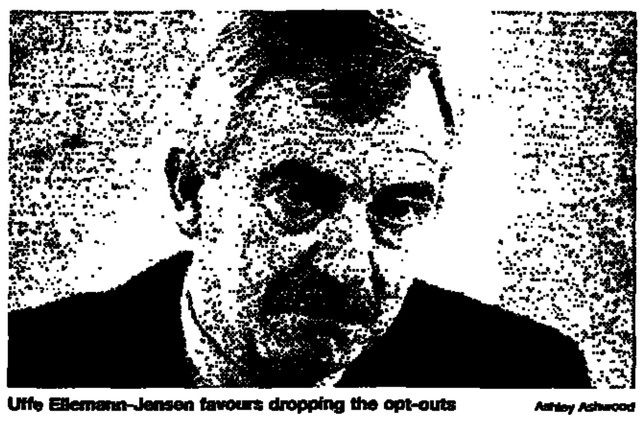
But the EU's intergovernmental conference (IGC) in 1996, which will review Maastricht and set a course for the Union to follow into the next century, means Denmark's politicians must shortly grapple once more with the question of the country's role in Europe – and, specifically, reopen the debate on Denmark's "opt outs" from Maastricht.

The debate will be influenced by the recent referendum decisions in Sweden and Finland to join the Union – 22 years after Denmark joined the then European Economic Community. Danish public opinion is likely to be more susceptible to deepening the country's integration in the EU once its Nordic neighbours are also members. The three Nordic applicants (including Norway) have fully accepted the terms of Maastricht. If, on November 28, Norway also votes to join, it will strengthen the hand of those arguing that Denmark should drop its opt-outs.

In order to win the second Maastricht referendum, Copenhagen won the agreement of its EU partners to opt out of four of the treaty's provisions. These were the drive towards European monetary union (Emu) and a single currency; closer defence co-operation (specifically, Denmark reserves the right not to become a full member of the Western European Union); measures on European citizenship; and legal and home affairs matters.

The present Social Democratic-led government of prime minister Poul Nyrup Rasmussen, formed after September's general election, said in its inaugural policy statement that these opt-outs, agreed at the EU's Edinburgh summit in December 1992, remained the basis of Danish EU policy.

Mr Ove Fich, the Social Democratic chairman of parliament's Europe committee, says a contract was made with the electorate last year on the opt-outs that had to be honoured. He sees no need to reopen the debate on the exemptions, believing the IGC in any case will concentrate on central and eastern Europe. "The main issue will be enlargement – all other discussions will be seen in that light," he says.



Uffe Ellemann-Jensen favours dropping the opt-outs Ashley Ashwood

But there are other voices, both within government ranks and in opposition, which argue that the Edinburgh opt-outs – although unchallenged by any of Denmark's EU partners – are unsustainable for Denmark in the face of the IGC, and that the country should prepare to drop them. The differences are such that the all-party consultations that Mr Nyrup Rasmussen intends to hold next year with the intention of achieving a pre-IGC Danish consensus are set to be fraught.

What makes the issue more difficult is the necessity to hold a further referendum if any or all of the Edinburgh opt-outs are to be dropped – a step which few politicians would take lightly, given the experience of 1992.

The strongest advocate of dropping the opt-outs is Mr Uffe Ellemann-Jensen, leader of the right-wing Liberal party. Ironically it was he, as foreign minister at the time, who negotiated the Edinburgh deal. But he did so only out of political necessity, not because he thought the exemptions were in Denmark's best interests.

Mr Ellemann-Jensen argues that Denmark should aim to be a "hard core" member of Emu (it will be one of the first countries to meet the convergence criteria for Emu) and, as a member of Nato, should quickly become a full member of the WEU (it has observer status at present) to put itself at the heart of Europe's evolving security structures. If not, the country could be left on the fringes of the EU.

"What we lack is the political courage to go out and tell the Danes: these are the facts," he says. "We are not holding the internal debate to prepare Danes for what is going to happen at the IGC, and that is dangerous."

Denmark's new EU Commissioner, Ms Ritt Bjerregaard, a prominent Social Democrat, is among those within government ranks who thinks that eventually the opt-outs should be dropped. But she points out the difficulty for a minority government in adopting such a position when it relies to a large degree for parliamentary support from the Socialist People's party. The latter, though not anti-EU, is under pressure itself from the stridently anti-EU Unity List which won election to the Folketing for the first time in September.

The Social Democrats also know that many of their own supporters are cool towards the EU, and are still smarting from a humiliating showing in the EU parliamentary elections in June when the party slumped to just 15.8 per cent of the vote.

"Because of this, the government has to be extremely careful," says Ms Bjerregaard. "It says it is sticking to the exemptions – but it is not promising never to change them."

Her hope is that the whole range of issues facing the EU will have shifted sufficiently by 1996 to present a different scenario to Danish voters. For example, the WEU is likely to be more clearly defined as an integral part of Nato; enlargement of the EU to the north, and the planned integration of central and eastern European countries (popular in Denmark) may change the emphasis on the pace and method of EU integration.

"If we can convince people that lots of things have changed and that we cannot stand still, then things can be different. There might be many things to include in a referendum as a result of new negotiations," Ms Bjerregaard says.

How happy are Europe's most liberated women? asks **Hilary Barnes**

'Live strong and die young'

A shocking encounter awaited me when I first visited Denmark, as a teenager, some 40 years ago: an elderly lady who habitually smoked cigars. The distaff half of the Danish population is still puffing away. About 41 per cent of women were smokers in 1991, significantly higher than in other European countries.

Some things have changed over the past 30 years, but not for the better: as many Danish women as men are now classified as heavy smokers, and while fewer men smoke now than 30 years ago, just as many women do.

Danish women gained the vote in 1915, before women in any other European country, and ever since they have made a point of adopting the same social rights as men as well – to smoke and drink like the men, to choose their sexual partners as freely as men.

European attitude surveys suggest that Danish women regard themselves as more liberal and independent-minded than women in other European countries. Religious considerations do not place restraints on their behaviour. They are less inclined than their sisters abroad to accept decisions taken on their behalf by "authorities", taking little notice, for example, of official anti-smoking or anti-alcohol campaigns.

Since the 1960s, they have also taken to working like men. The female labour participation rate in Denmark is almost 80 per cent – higher than in any other country in Europe except Sweden. Generous provision for institutional care for children from the age of six months onwards has encouraged a family structure in which both parents work. The "housewife" as a demographic category has virtually disappeared.

Liberated – but the price looks high Picture in the Tivoli Gardens: Tony Andrews

Equally extensive facilities for the care of the elderly have freed children from caring for their elderly parents as well. As a Swedish sociologist once said of the Scandinavian welfare state: it has freed the individual from the tyranny of the family.

Ms Anne Knudsen, an anthropologist, recently caused public controversy by asserting that Denmark has become a matriarchy, in which women dominate opinion. This, said Ms Knudsen, was not a good thing, as women are too conservative-minded and hold back necessary change.

How much truth there is in her thesis is difficult to know, but there is a long way to go before women have achieved equality of influence as measured by the number of women who reach the top in politics and business. About one third of the members of the Folketing and of the present Cabinet are women, and two of the eight parties represented in the Folketing are led by women (three until last month, when the Progress party's Ms Pia Kjaersgaard was demoted); but in business, women in top jobs are few are far between.

Perhaps equality is, as a young woman journalist specialising in youth culture commented at a dinner party recently, as she puffed away at her third cigarette within the hour, "coming along nicely." But emancipation is not without its costs, which were highlighted this year by a report from the ministry of health.

The report examined female mortality rates in Denmark in the age group 35-64 year (part of an extensive 16-volume study of mortality rates among both men and women). Mortality in this age group is still higher for men, at about 700 per 100,000, but while the male mortality rate has fallen from about 850, 30 years ago, the female mortality rate has remained almost unchanged at about 500 per 100,000.

Particularly striking is a comparison of the mortality rate among Danish women in the 55-59 age group, compared with women in other European countries (Sweden, Norway, Holland and France). In Denmark the rate increased from 811 to 825 between 1955-59 and 1985-89. In the other countries the rates were much lower, and they have fallen significantly. In the case of France the rate fell dramatically from 838 in 1955-59 to 472 in 1985-89.

The ministry's report attributed the Danish trend to increased death rates from heart disease, chronic respiratory diseases, lung cancer, cirrhosis of the liver, cancer of the breast and suicide. Four out of six of these conditions are directly related to alcohol or smoking or both.

The number of women aged 35-64 dying from cirrhosis of the liver has doubled over the past 30 years. Deaths from lung cancer in the 45-54 age group have risen from about eight per 100,000 in the early 1960s to 35 in 1985-89, and almost 100 per 100,000 for the 55-59-year-olds. For both age groups, the lung cancer mortality rate is much lower in the other European countries.

Denmark has always had a relatively high suicide rate, but for women in this age group it has increased, rising from about 23 per 100,000 of the 35-64 age group in early 1960s to 32-33 per 100,000 throughout the period 1970-1990. There is evidence to suggest that mortality rates, as well as other life-style problems, are especially high among university-educated women, the career women who are the spearhead of the push for equality with men.

A survey of living conditions by the Danish Institute for Social Research, published in 1992, found, among other things:

☐ Women graduates have a higher mortality rate than women in general, while male graduates have a lower mortality rate than the average.

☐ The risk of death from breast cancer is 40 per cent higher for women graduates than for women in general.

☐ Suicide among graduate women is a much more frequent cause of death than among other groups of women, or among male graduates.

☐ One in three graduate women have no children by the age of 35. One in five graduates have no children.

☐ Among women in management positions, every other one has experienced a divorce (one in five for men in similar positions), and one in four attributes divorce to problems associated with a career. One in five live alone, compared with only 7 per cent of men in similar positions.

"If the result of all our efforts is stress and death, wouldn't it be a good idea to return to the good old days?" asked Ms Hanne Dam, a writer on women's issues, in a leading article in her newspaper Information in August. "Not at all," she went on. "... It behoves society to provide women with the opportunity for a worthier life."

The young woman journalist at dinner, as she puffed her way to a possible early decease, was even less equivocal: "Live strong, die young. That's the Danish women's motto," she said.

A Japanese technique is helping companies improve productivity

Pooling everyone's ideas

"Continuous improvement" – productivity-improving techniques based on the Japanese *Kaizen* principle – is increasingly popular in Danish industry.

"In other countries, continuous improvement is practised by some of the large and well-known companies. What is exceptional about Denmark is that it is being practised throughout industry," said Mr Per Bronsholt Nielsen, consultant at the Federation of Danish Industries, where he has helped to introduce continuous improvement techniques to a network of 150 Jutland companies, which is one of four regional groups working with the techniques.

The starting point was a study-tour to Japan by a group of Danish industrialists in 1987. They visited a selection of the best Japanese companies, to examine some of the factors which made them masters of productivity development. The tour resulted in a book, and in the successful adoption of some of the techniques which had been learned at a handful of companies, but only in the past two years has the movement caught on.

"We think we have developed something unique by combining the culture of the Danish firm with organisational development and management tools," said Mr Nielsen. "We have concluded that you cannot make the tools ['just-in-time' or quality circles, for example] work without taking the culture of the company into account."

Kaizen, as adapted to Danish requirements, is called "employee activated production development". The basic aim is to involve everyone in the firm, from the management down to the shop floor, in a process of improving productivity by making things work more smoothly and efficiently.

The results have been generally good, in some cases spectacular. One company achieved a 50 per cent productivity improvement over a period of 18 months. Many companies report productivity increases of 10 to 20 per cent.

"What has surprised me and many others is that the improvements in productivity in firms which have been using the technique for several years are achieved year after year," said Mr Nielsen.

Using common sense to eliminate errors or inefficiencies in the production system is one way of describing the intentions of the programme. It works when everyone in the company contributes, both by pointing to the problems and by suggesting solutions.

It has caught on so spectacularly in Denmark, Mr Nielsen thinks, because of an existing culture of co-operation between the management and the workforce in Danish industry, at both industry and company level. Danish labour relations are regulated by law, but legislation is rarely imposed unless with the joint agreement of the employers and the trade unions; and almost everyone – the companies and their employees – is a member of either an employer association or a trade union.

One company achieved a 50 per cent productivity improvement over a period of 18 months. Many report increases of 10 to 20 per cent

"At company level, it is part of the culture that we talk things over. Labour conflicts are rare," said Mr Nielsen. "We also have a generally high level of education among the employees, and they are not afraid of raising questions about the way things are done, especially not the younger generation."

When the idea of employee-activated production development is being launched by a company, it is common for a consultant from the Federation of Danish Industries to join a consultant from the Metal Workers' Union in explaining to employees what the idea is all about.

"If we can convince the workforce that this process helps to improve working conditions for employees as well as productivity, that jobs become more interesting and the employee's influence is increased, then everyone is happy," said Mr Nielsen.

The movement had spread fast through networking – another process which works well in Denmark, because companies listen and pass on their own experiences, so that colleagues, and even competitors, can learn, he added.

The Federation of Industries started the process by bringing together a small group of companies, whose managements met to discuss their experiences several times a year. When the news is good, it spreads rapidly and more companies want to hear how they can benefit from the process.

Hilary Barnes

Leave-from-work schemes are saving jobs

In place of redundancy

It sounds like a trade unionist's dream: to prevent dozens of redundancies by putting workers on a rota of state-subsidised extra holiday. But for Copenhagen bus drivers the dream became reality this year, thanks to the government's leave-from-work schemes designed to cut unemployment and promote job-sharing.

When the local bus drivers' union faced a cut of several hundred drivers from the 2,500-strong municipal force, because of privatisation, it adopted a system already worked out by a fellow union in the rubbish-collection sector.

Exploiting a programme allowing workers to take up to a year in sabbatical leave – backed by generous state benefits while absent – the bus drivers' union worked out a scheme by which its members could take off one week in every nine on a rotation basis, thus cutting down the numbers of workers who had to be dismissed.

As a result, some 75 jobs were saved. And each driver participating in the scheme has won six weeks of extra holiday a year, on top of their normal paid holiday allowances. While on the extra time-off, each driver gets 80 per cent of the maximum Danish unemployment benefit allowance – which works out at about DKr2,000 a week before tax.

"I think this is a very good model for helping to break the unemployment curve by slowly reducing working time," says Mr Bjarne Hansen, of the Copenhagen bus drivers' union. He adds: "Bus drivers are going to Poland, to Paris and to London on their week off. It is very nice, people really like it."

There are, however, mounting voices among employers and right-of-centre opposition parties, arguing that the leave-from-work schemes are an expensive and ineffective way of combatting unemployment. They warn that the programmes, which have proved more popular than anticipated since they were introduced two years ago, threaten to cause disruptive shortages of skilled workers in certain areas of the economy.

The sabbatical leave programme exploited by the bus drivers is, in fact, the least popular of the three leave schemes. Most periods of leave are being taken under the parental leave and training leave programmes.

Parents of children up to the age of eight years may each take up to a year off work for each child, separately or together, while receiving 80 per cent of the maximum unemployment benefit.

Under the training scheme, an employee can take up to one year to undergo work-related education at 100 per cent of the maximum unemployment benefit. Under an easing of the rules recently, employers were relieved of the obligation to take on replacement workers.

The government estimated that 20,000 people would take advantage of the three schemes this year. But demand has soared to the point where 76,000 are now on leave, and almost as many again are expected to have applications approved in the course of the year. Of those currently on leave, 45,000 are on parental leave and 25,000 are on training leave. The vast majority (90 per cent in the case of parental leave) are women. Most are in the public sector.

Oddly, almost half the leave-takers are unemployed. They are entitled to take advantage of the schemes, an attractive option because, in effect, taking leave extends the period during which a jobless person is eligible for full unemployment benefits. Most controversial has been the rush by nurses to take advantage of parental leave. Up to 3,000 of the country's 45,000 nurses are on leave, forcing the health service to look abroad – mainly to Sweden and the Netherlands – to make up the shortages.

> Mounting voices among employers and opposition parties question the schemes' costs and effectiveness

Mr Poul Erik Petersen, head of the Danish Employers Association, says the case of the nurses illustrates the danger of the leave-from-work scheme. He says it can lead to serious bottlenecks in the labour market, which could begin to feed inflation into the economy rather than tackle unemployment which, though statistically, reduced by the schemes is in real terms little changed. He says skill shortages are also showing up in the furniture and construction industries.

"The nurses' union is now seeking a 15 per cent wage increase – they realise how the market economy works," he says. "There is a danger that this can spread to the whole economy."

The government rejects these fears as being overstated. It is reviewing the schemes with a view at least to reducing the level of benefits available to the users of parental and sabbatical leave. But its commitment to leave for training is solid, as this is a fundamental to its strategy of tackling unemployment by increasing skill levels in the economy.

Hugh Carnegy

Hilary Barnes profiles two of the country's best-known companies

Containers cover the globe

■ MAERSK LINE

The A.P. Moller group's Maersk Line may or may not be the world's largest cargo liner shipping service – it depends on the definition. But Mr Vagn Lehd Moller, vice-president in charge of liner services, accepts the description "the most comprehensive" global liner service.

Maersk Line owns 47 vessels and operates a total fleet of 93 vessels. They operate global east-west services and are active on all three major world trading routes, the North Atlantic, Europe-Far East and the US-Far East.

The fleet operated by Maersk Line has a carrying capacity of 124,643 containers (at October 1, this year) – more than any other shipping company except Taiwan's Evergreen. Fourteen of the ships can each carry more than 4,000 containers.

The east-west services are linked at a number of hub ports with north-south services and "feeder" services, which leave few geographical areas not directly serviced by Maersk Line.

A.P. Moller, by far is Denmark's biggest industrial group, was founded in 1904 by the late Mr A.P. Moller, whose son, Mr Maersk Mc-Kinney Moller, remains chairman of the group's twin holding companies, the listed D/S Svendborg and D/S 1912.

Apart from passenger transport, the group has interests in all forms of shipping – and also in offshore drilling. It produces oil and gas from the Danish sector of the North Sea, and operates its own shipyard (the Odense Steel Shipyard) and its own airline (Maersk Air), as well as manufacturing and retailing businesses.

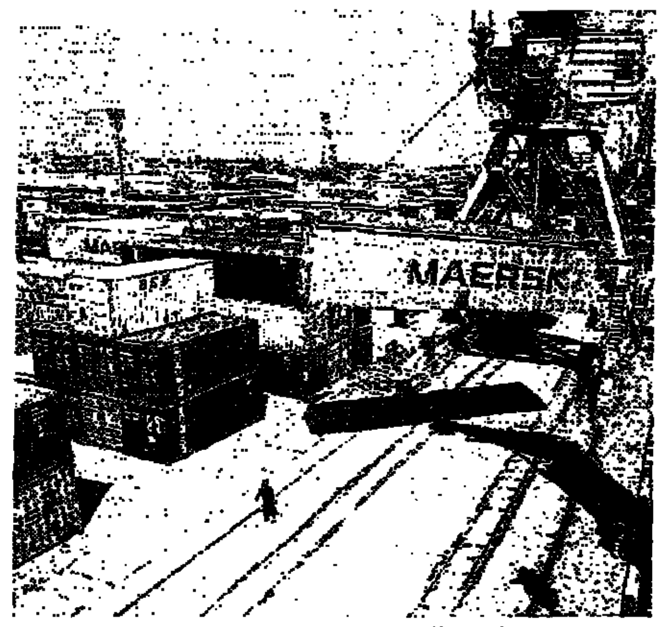
The group's structure means that consolidated figures for all its various operations are not available, but turnover in the oil and shipping operations under the twin parent companies came to DKr27.6bn in 1993, and there was a net profit of DKr2.91bn – a good start for Mr Jess Soderberg, who succeeded Mr Moller as chief executive officer, in charge of day to day operations, in mid-1992, when Mr Moller turned 80.

In the highly competitive and secretive world of shipping, no one knows exactly how much the other large operators make, or how. To the irritation of Denmark's corporate analysts and business journalists, A.P. Moller keeps its financial cards close to its chest. No financial information covering Maersk Line slips out. But the A.P. Moller shipping operations as a group consistently report profits.

Maersk Line, founded in 1928, has expanded rapidly since it went into container transport in the early 1970s.

"The new-building programme for 1995, 1996 and 1997 is in place," said Mr Lehd Moller, which indicates that the liner business is still doing well enough to invest in supplementing its fleet. The fleet is young, with an average age of about seven years. "We need high-speed, high-quality ships," he said.

Mr Lehd Moller does not see expansion taking place through cut-throat competition for market-share in a stagnant market. "As we see it, the global market for containers will grow in coming years," he said. "We believe we will see growth of at least 6 per cent a year for as far as we can see. More and more cargo will go into containers. More and more markets will mature." He believed that containerisation would spread to relatively under-developed markets, including east Europe and Russia.



A Maersk container arrives at Haiphong's Doan Xa terminal Sarah Murray

Containers are also becoming more flexible and sophisticated. "They can cater for just about anything," he said. An example was the growth of refrigerated cargo ("reefer") containers. Maersk Container Industri A/S, the group's container manufacturing company in Denmark, is planning to deliver reefer containers, and Maersk Line recently took delivery of 500 20ft and 2,500 40ft reefer containers from Korea's Hyundai.

Maersk Line is the world leader in reefer containers, a fact which probably means it is a larger carrier of refrigerated cargoes than any of the fleets of bulk-carrying reefer ships operated by competitors. Reefer containers, says Mr Lehd Moller, have at least the same reliability and are just as sophisticated as reefer vessels.

Another business area which is being developed by Maersk Line is known as "logistics" – in which the ocean shipping company undertakes to provide a complete transport service from producer (for example, a shoe manufacturer in China) to the final customer (a shoe retailers in Europe).

"This is building up very nicely," said Mr Lehd Moller. But it is a very complicated business. Contracts for Maersk's most complete Three Star logistics solution, which may involve transporting 20,000 containers a year for one customer, are numbered in single figures; but it has a much larger number of somewhat less sophisticated Two Star contracts. This is value-added business – "very much so", said Mr Lehd Moller – and requires considerable investment in the development of systems. "You don't get paid immediately," he explained, and then outlined the complexity of the operation.

To start with, the shoes must be of the right size, colour and quality. They must be packed properly. Documentation is carried out, and then customs clearance. Information systems are required, so that the customer knows where the goods are and when they will be arriving; and the goods first have to be transported to a port, then delivered to the stores by Maersk Line's dedicated train and truck services (which are not owned by Maersk, but are on contract or charter to it).

Maersk Line is widely acknowledged in the industry as an efficient operator with high standards of service. An executive at Carlsberg, the Danish brewery group, recalled attending a reception given by a third company in Hong Kong. A Maersk Line vessel came into view approaching port. "Ah," said an A.P. Moller executive, "it will dock in 11 minutes time; and in exactly 29 minutes the captain will appear here."

The predictions proved correct – a neat illustration of the group's motto, a phrase coined by Mr A.P. Moller: "Timely attention."

A sound recovery

■ BANG & OLUFSEN

Bang & Olufsen can be likened to a French chef, says Mr Anders Knutsen, the group's chief executive: he buys the best-available raw materials in the market, and his reputation is based on the way he mixes them to produce exquisite dishes.

The Danish producer of up-market audio and video products does something similar. It buys much of what goes into its products from outside, but it puts them together in such a way – with a substantial input of its own technical flair and software – that the product is exceptional.

If this were a process anyone could do successfully, B&O would not be the only surviving independent manufacturer in Europe that produces a full range of both audio and video products. Indeed, a couple of years ago, after the group had suffered three successive years in the red, B&O's own survival hung in the balance.

It has staged a remarkable recovery under of Mr Knutsen, who was made chief executive in the autumn of 1992 after a 20 years with the company. In the year ending last May 31, the group made a profit of DKr125m, against a loss in the previous year of DKr42m, and sales were up to DKr2.40bn from DKr2.12bn.

The first half of the current year is expected to produce an equally good performance. The financial market's confidence in the group has returned. The share price, which plunged to around DKr200 in 1992-93, is now at DKr1,200.

At the groups' headquarters in Struer, a small town in north-west Jutland, Mr Knutsen attributed its long-term success to "a unique combination of technological excellence and emotional appeal" – the emotional, or aesthetic, appeal arising from the superb design which, more than anything, has generated a brand-name awareness of B&O products.

To rebut the suggestion that B&O merely presents conventional technical solutions in brilliant packaging, Mr Knutsen darted from the room to return a moment later with the insides of two television sets, a standard product from Philips and a B&O set – a graphic way of illustrating the difference in complexity and performance between the two sets.

This autumn the company turns another corner with the launch of an ingenious all-in-one television and video set, known as the Avanta, the first such product set to reach the market. In typical B&O design, it will grace the most elegant of drawing rooms, though at a price which less choosy consumers may find steep.


Anders Knutsen meets everyone annually, and makes sure they understand the strategic vision

The recovery in the company's fortunes is the result of a combination of factors; but one explanation which Mr Knutsen does not accept is that it is riding high in a cyclical recovery in the market. The Danish market recovered in 1993, but the other European markets did not. Yet, in Germany, where the market is still depressed, says Mr Knutsen, the company has this year boosted sales by 28 per cent.

Clearly, a lot of things have been put right to achieve this kind of growth in a stagnant market. The starting point was a "break point" programme launched in the autumn of 1992. Group employment was reduced by 700 to 2,300. Production was rationalised by centralising the electronics production and the mechanical engineering operations respectively in one plant.

The sales and marketing structure was changed, cutting costs substantially. Direct ordering and direct distribution has been introduced. A retailer in, say, Madrid places an order, using his personal computer, with B&O in Denmark. B&O distributes directly from its store. If the model ordered is not in store, the Danish company undertakes to deliver in five days – two for manufacturing and three for transport.

Flexible production and low inventories are keywords. The production range has been broadened, introducing TV sets at the relatively low price of about DKr10,000, extending through a complete range to surround-sound audio systems which lighten the pocket by around DKr100,000.

Productivity in the manufacturing divisions of the company improved by 15 per cent in 1993-94 from the previous year, and the aim is a further 10 per cent improvement this year and next. This is the result partly of a programme to improve logistics and the production structure, which began six years ago, but it is also a result of a programme to involve the workforce to an ever-increasing degree in bringing about production improvements.

Two layers in the management structure were eliminated by Mr Knutsen, so there are now four, from shop-floor to board of management. Foremen (or supervisors) and shop-floor workers have been given greater responsibilities, which has required an intensive process of education and training. It also involves Mr Knutsen – or Anders, as everyone in Struer calls him – in a heavy programme. He meets every employee at least once a year in groups of 50 at a time, which means about 50 meetings annually.

He makes sure that everyone understands the strategic vision and the management's goals, and he receives direct feedback in the form of questions and comments. "It is a hard programme, but it is a good investment," he said.

It quickly becomes apparent to a visitor to Struer that the change of top management has been very important. Mr Knutsen says it himself, explaining the significance of having a board of management which is in full agreement about where it wants to take the group and how to get there.

But it is the unsolicited comments from everyone else one meets that are most telling, from the secretaries and the shop floor upwards. "The present directors know what they are doing, and when they take a decision they stick to it," observed one secretary.

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COMPANIES & MARKETS
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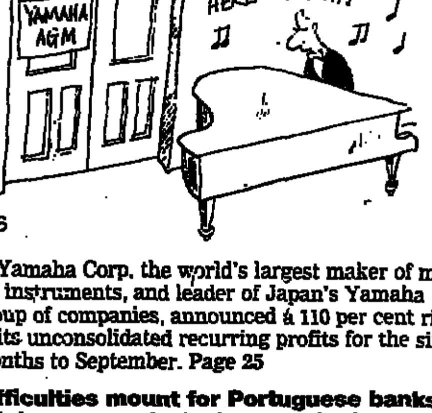
IN BRIEF

Retail therapy lifts US stores

Three of the biggest US retailing groups – J.C. Penney, Dayton Hudson and Home Depot – each reported *strong* increases in earnings for the three months to October yesterday. Page 24

BCI misses Ambroveneto deadline passes
Banca Commerciale Italiana, the Milan-based bank, appears formally to have abandoned its attempt to gain control *of Banco Ambrosiano Veneto, its* quoted competitor. Page 22

Yamaha strikes a sweet note



Yamaha Corp, the world's largest maker of musical instruments, and leader of Japan's Yamaha group of companies, announced a 110 per cent rise in its unconsolidated recurring profits for the six months to September. Page 25

Difficulties mount for Portuguese banks
Third-quarter results for Portugal's banks were the worst for almost a decade. The once-buoyant sector has been hit by recession, tougher competition and a collapse in bond trading profits. Page 24

JR West float shelved
The Japanese government has shelved until next year the flotation of state-owned West Japan Railway (JR West). Page 25

Weakness at Swedish bank
A big fall in loan losses enabled Svenska Handelsbanken, one of Sweden's leading commercial banks, to lift profits by 148 per cent, but the improvement obscured a poorer underlying performance. Page 22

BOC lifted by rising gas prices
A sharp rise in gas prices and volumes in the final quarter helped BOC, the UK chemical group, to increase 8 per cent to £3.48bn ($5.7bn) for the year to September 30. Page 26

De La Rue advances to £73m
Record banknote production helped De La Rue, the UK's security printer, payment and transaction systems group, report better than expected interim profits yesterday. Page 26

Acquisitions bolster Great Portland
Acquisitions following its 1993 rights issue helped Great Portland Estates, the UK's sixth largest property company, announce interim pre-tax profits up from £16m to £21.4m ($35m). Page 28

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			**PARIS (FFr)**			
Rises			Rises			
BMW	769	+ 13	Banc Comp	570	+	22
Daimler Benz	787.5	+ 16.5	Immobanque	810	+	19
Goldschmidt	628	+ 15	Simco	480	+	23.8
Kaufhof	473	+ 12	LFB Locbil	419.8	+	18.8
Veba	530.5	+ 9.4	Union Immob	348	+	34
Falls			Falls			
Aachen Rg	1010	- 25	Interbail	490	-	11
NEW YORK ($)			**TOKYO (Yen)**			
Rises			Rises			
Citicorp	46⅝	+ 1⅛	Asahi Denka	584	+	13
Dig Equip	33¾	+ 1¼	Chichibu	555	+	26
Home Depot	47⅞	+ ⅞	Fuji Spin	527	+	17
Westpac	30⅞	+ 1¼	Kinden	1800	+	70
Falls			Matsuh Elt	862	+	37
Bank Amer	42⅞	- [illegible]	Falls			
Dayton Hdsn	81⅝	- 2⅛	Nip Paint	658	-	34

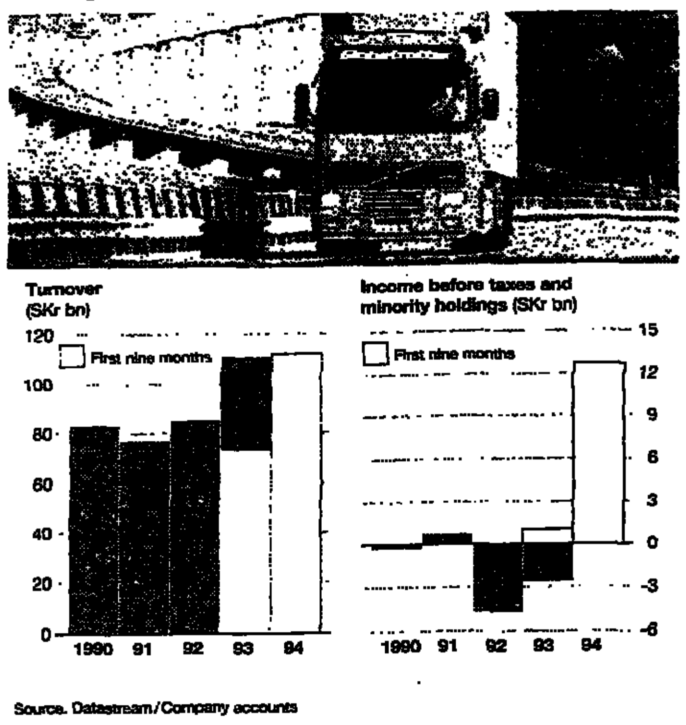
New York prices at 12.30pm.

LONDON (Pence)						
Rises			Marshalls	148	+	5
Antsons	438	+ 18	North West Wtr	550	+	13
BBA	158	+ 8	Portals	723	+	37
Ecole	325	+ 12	Renco Energy	256	+	35
Break for Border	53	+ 4	Rodime	13	+	2½
De La Rue	1034	+ 31	Sims Food	87	+	6
Dickie (James)	165	+ 11	Standard Chtd	297	+	10
Eurotunnel Uts	234	+ 14	Falls			
Gt Portland Ests	189	+ 8	Diploma	345	-	5½
HSBC (75p shs)	750	+ 22	Gen Accident	585	-	19
Hambros	232	+ 7	Sycamore	18	-	5
Heath (CE)	232	+ 13	Wardle Storeys	363	-	6
ICI	789½	+ 18½				
Magnum Power	121	+ 7				

Truck and car operations in Europe and US spearhead recovery

Volvo surges on sales and capital gains

A big load off its mind



Source: Datastream/Company accounts

By Hugh Carnegy in Stockholm

Volvo, Sweden's biggest manufacturer, *yesterday reported* a 12-fold leap in profits in the first nine months of the year. Surging sales for its cars and trucks and big capital gains consolidated the company's dramatic recovery *from recession.*

Pre-tax profits reached SKr12.7bn ($1.7bn), compared with SKr1.06bn in the same period last year, as sales rose to SKr112.2bn from SKr73.5bn.

The result was boosted by the inclusion of BCP, the food and drinks group now fully-owned by Volvo, which added SKr15.2bn to group sales and SKr1.6bn to group operating profits of SKr6.6bn.

The bottom line was also inflated by SKr4.2bn earned by the sale during the period of non-core assets, in line with Volvo's strategy of concentrating on motor vehicle production following the breakdown last year of a plan to merge with Renault of France.

But both the car and truck divisions continued a significant recovery under way throughout this year, driven by growing demand in their main US and European markets. Volvo managed to bring its new flagship 850 *car model and FH truck series* on to the market just as recession in its main markets was coming to an end.

Unit car sales rose 18 per cent to 269,600, pushing up the value *of sales to SKr52.8bn from* SKr39.8bn and producing a leap in operating profits to SKr1.95bn, from SKr10m.

Truck sales, benefiting from a recovery in demand in all main markets except Germany, grew faster, with worldwide unit sales rising to 19,400, a jump of 38 per cent.

Sales totalled SKr37.3bn, compared with SKr27bn, while operating profits rose to SKr2.7bn from SKr183m.

However, Mr Sören Gyll, chief executive, struck a warning note. "While the improvement in earnings in our core operations is gratifying, it is not yet adequate," he said.

He expressed satisfaction with the truck performance, saying the operating margin stood at 7 per cent. But he warned that the car division, with an operating margin of 4 per cent, had been held back by higher costs caused by a change in production and foreign exchange hedging which restricted the benefits from the devaluation last year of the Swedish krona.

"A doubling [of car division profits] is required. An operating margin of 7 per cent is judged to be adequate for continued expansion," Mr Gyll said.

He *also said that the strong* demand for trucks and cars had led to delays in deliveries of as much as *six months as Volvo hit* capacity ceilings. "We are working hard to correct this problem," he said.

Volvo is investing SKr390m to raise truck capacity to 50,000 a year outside the US by next July. The company said a decision on a further SKr1bn investment to raise capacity by up to another 10,000 – much of it to be added in *Sweden – would be taken by next* January.

Background, Page 22

Tokyo to ease regulations for foreign listings

By Gerard Baker in Tokyo

The Tokyo Stock Exchange yesterday announced wide-ranging measures to ease share-listing requirements in an attempt to revive the attraction to foreign companies of Japan's lacklustre stock market.

Mr Mitsuhide Yamaguchi, the president of the exchange, said the proposed new rules, which may take effect next January, were aimed at removing the principal obstacles to a Tokyo listing, especially for Asian companies.

The stipulation that companies must be listed on their own national stock exchanges will be scrapped, *as will the rule requiring* a minimum one-year moratorium after a privatisation. These reforms are designed specifically to attract the former state enterprises of China and other Asian countries.

In the past year a succession of Chinese enterprises have listed on the Hong Kong and New York stock markets where the rules are less rigid. Mr Yamaguchi expects the changes to pave the way for more than 200 Chinese and east Asian companies to join the exchange in the next few years.

The minimum asset requirement for companies will be cut from Y100bn to Y10bn ($103m), and instead of a regulation that companies must have had at least three years' annual profits of Y20m, the exchange will require that companies have profits averaging Y2m over the three years prior to a listing.

Foreign companies in Tokyo welcomed the measures. "There is no question that privatised businesses in emerging markets desperately need access to a highly liquid market if they are *to realise their potential growth,"* said the chief executive of one large financial institution. "These measures will facilitate that."

The changes are not expected *to improve prospects significantly* for companies already listed in Tokyo. In the past year, at least seven overseas companies have announced plans to delist from the exchange, including, most recently, British Gas.

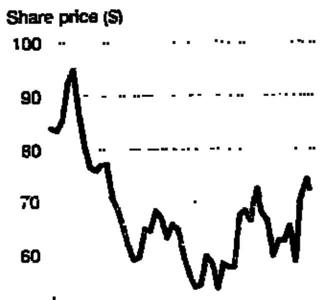
The number of foreign shares listed on the exchange has fallen from 127 in 1991 to fewer than 100. Most companies have left because of the collapse in share-trading volumes and exorbitant trading commissions.

While the exchange has pledged to seek a reduction in commissions, the prospect of a *significant cut in trading-related,* as distinct from listing-related, costs is remote.

Swiss group follows Roche and Sandoz into the US

Ciba may seek 50% holding in Chiron

Chiron Corporation



Source: FT Graphite

By Tony Jackson in New York

Ciba, the Swiss chemical and drug company, confirmed it is in talks to acquire a "significant" minority stake – believed to be just under 50 per cent – in Chiron, the US biotechnology company. The deal would include the transfer from Ciba to Chiron of assets worth about $1bn.

Neither company would comment in detail, and emphasised the transaction might not take place. *However, Ciba said the* deal would involve giving Chiron its diagnostic business and its half share of Biocine, a vaccine manufacturer jointly formed by the two companies in 1987. Analysts speculated that the diagnostics company, Ciba Corning Diagnostics, might be valued at $800m. The share of the vaccine venture, which is developing vaccines against hepatitis, herpes and Aids, might be worth more than $150m.

Neither company would comment on reports that Ciba planned to buy almost 50 per cent of Chiron at $100 per share. Mr Samuel Isaly, of the Wall Street research firm Mehta and Isaly, said he believed Ciba would buy 13.4m shares in the open market and have a further 13.4m issued to it by Chiron, in return for around $1bn in assets and $300m in cash, involving Ciba in a cash outlay of about $1.6bn.

The link between the companies was "a hand in glove fit from top to bottom", Mr Isaly said. Ciba has a worldwide marketing network for its diagnostics business, in which the biggest product is its ACS 180 machine for early identification and monitoring of diseases. Chiron has *developed new DNA-based* technology to measure viruses such as hepatitis and HIV, which are not expected it to reach the market until 1996.

Ciba's move brings it in line with the two other big Basle-based drug companies, Roche and Sandoz, in making large US acquisitions this year.

UK fund manager calls a halt to 'soft commissions'

By Norma Cohen, Investments Correspondent

Mercury Asset Management, the UK's largest fund management company, has decided that from next January it will no longer accept "soft commissions" – free goods or services – from brokers it agrees to channel business through.

MAM's move comes as regulators in the US, UK and Hong Kong are scrutinising the rules on soft commissions out of concern *they can lead to a subtle* form of bribery which harms the interests of the clients on whose behalf funds are managed.

Fund managers may pay more for securities than they ought to in order to generate the agreed level of business.

In the UK, the move is likely to heighten pressure on MAM's competitors to adopt a similar stance as pension fund clients seek greater transparency in fees to their fund managers.

Mr Colin Clark, marketing director at MAM, said MAM had taken a tough line on soft commission for several years and that the value of services which they receive under soft commission arrangements was "under £2m" per year.

Imro, the UK self-regulatory body for the fund management industry, has recently issued a *discussion document which proposes* restricting the types of goods and services which fund managers can accept.

"Regulators internationally have felt there was scope for abuse around the boundaries," said Mr Robin Clark, director of monitoring at Imro. "It is one thing to accept [soft commissions] for research and another for travel to warm sunny climates," he said.

Earlier this year, Imro fined a *division of Abbey Life for allowing* its fund managers to accept free travel.

Under soft commission arrangements, brokers agree to the provision of such things as research, performance measurement services, Reuters or Bloomberg screens in exchange for a fund manager's guarantee that a minimum amount of business *will be executed through the* firm.

Soft commission services are typically those which fund managers would normally have to pay for out of their own pocket. It would be considered an abuse to use soft commissions to pay for office furniture, rent or entertainment expenses.

Barry Riley

Inflation is not dead but has moved elsewhere

Is long-run price stability here at last? HSBC's London chief economist Roger Bootle is celebrating with a 70-page study called *The End of the Inflationary Era*. Because HSBC Greenwell is *one of London's leading bond* houses he can be excused for trumpeting favourable news for fixed income investors. But his arguments may be in some respects misleading.

He seems to be overimpressed by the recent inflationary slowdown in the UK and in one or two other former black spots for price stability such as Australia and Italy. But looking more broadly at western economies the *real* breakthrough was achieved in the mid-1980s, when average consumer price inflation in the Group of Ten countries fell to 2.3 per cent in 1986. Only this year has inflation declined to that level.

German inflation has *deteriorated* and that in the US has barely improved, although in *countries such as Japan and* Canada, inflation has fallen to levels where it is effectively non-existent.

With the global economy now growing rapidly there is a risk of another cyclical upswing in inflation. Last time the UK and Sweden led the way with inflation of around 10 per cent in 1990, and even Switzerland spoiled its image with 6 per cent.

Elsewhere in the world inflation is as prevalent as ever. It is running at 27 per cent in China, and at hyper-inflationary rates in *parts of eastern Europe and Latin* America. How can we be sure that the infection will not spread, perhaps stimulated by rising commodity prices?

Bootle cites various powerful economic trends, such as rapid technological progress, growing competition from Third World manufacturers and chronic labour surpluses in the western economies. These are all interesting themes. But *are they really* responsible for eliminating persistent postwar inflation? Bootle surely underplays the monetary indicators which in the past have been crucial in signalling inflationary risks.

With the global economy now growing there is a risk of another upswing in inflation

It was the link with gold that kept the value of money steady over the centuries. After the *second world war inflation was* persistent rather than rapid, despite the significant inflationary potential of the post-gold Bretton Woods system. The main reason for the moderation was that credit creation was firmly controlled in most countries. Once that changed in the 1970s the genie of inflation was out of the bottle.

Recessions in the mid-1970s and early 1980s cooled the fever, but countries that subsequently suffered renewed credit binges let the side down: the UK, the Nor*dic countries, at one stage the* US, also Japan; and eventually post-unification Germany lost its grip, too, in the early 1990s.

Most of these later credit excesses have boosted financial asset prices rather than general inflation. Asset price surges are readily reversible, so there has been a painful banking hangover and private sector indebtedness remains high. In 1986, when gen*eral inflation was low, broad* money growth in the US, Japan and the UK was surging at between 9 and 16 per cent. Now the money growth is 2 to 5 per cent. This is the clearest pointer *that low inflation is here to stay.* Any worries now focus on Germany.

Both borrowers and lenders have learned expensive lessons from the excessive reliance upon short-term credit during the 1970s and 1980s. There has been a increase in the role of the long-term capital markets, both by governments and industry. In the US, in particular, sections of banking activity – such as mortgage lending – have been extensively securitised. It is these trends which inflation-watchers need to track, rather than developments in *technology or inflows* of cheap goods.

Capital markets are restricted, however, by their reliance on finite flows of savings, whereas banking systems can create new credit almost without limit. The global recovery has therefore quickly come up against resistance from high real interest rates.

The danger signals will come if bond market financing is seen to have become too expensive, in which case there may be increasing resort to banks and in partic*ular to the monetisation of public* sector debt.

INTERNATIONAL COMPANIES AND FINANCE

Fall in loan losses offsets weakness at Swedish bank

By Christopher Brown-Humes in Stockholm

A big fall in loan losses enabled Svenska Handelsbanken, one of Sweden's leading commercial banks, to boost profits to SKr3.18bn ($438m) from SKr1.38bn in the nine-month stage.

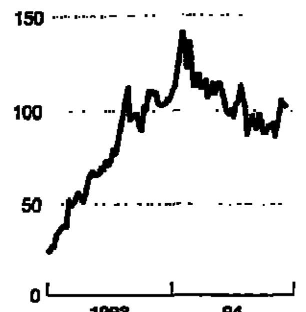
However, the 143 per cent improvement obscured a poorer performance in the bank's underlying results in the face of weak loan demand and narrower margins.

Its result before loan losses was down 19 per cent at SKr5.3bn, largely because net interest income was 14 per cent lower at SKr6.45bn.

The main feature of the results was a SKr3.1bn fall in loan losses to SKr2.14bn. The recovery in the Swedish economy on the back of lower interest rates has led to a sharp improvement in the business climate, to the benefit of all the country's banks.

Svenska Handelsbanken

Share price (SKr)



Source: FT Graphite

Even so, Handelsbanken's loan losses as a percentage of total lending still amount to 1 per cent – four times the level in the late 1980s. Mr Arne Martensson, chief executive, believes the figure could fall to 0.5 per cent next year.

Mr Martensson was also optimistic about underlying prospects, saying the third quarter had shown the first clear signs of a rise in loan demand for more than two years. He expects the momentum to be maintained following Sweden's endorsement of EU membership in Sunday's referendum.

He said the bank had ploughed much of its surplus liquidity into bonds, expanding its portfolio to SKr103bn from SKr64bn in the last year. "These funds are only being parked until loan demand rises," he stressed.

The bank made a nine-month profit on bond trading activities, despite the turbulence in money markets. The result, however, was much lower than a year ago. A SKr3.5bn unrealised deficit in its bond investment portfolio has hit the bank's equity, but not the profit and loss account.

Problem loans were SKr7.36bn at the end of September, down 41 per cent from the last year.

PowerGen lifts payout by 27% for half-year

By Michael Smith in London

PowerGen, the UK electricity generation company, yesterday provided a fillip for shareholders, including the government, by announcing an interim dividend rise higher than expected, at 26.6 per cent.

Shares in the company rose 8p to 559p. National Power, which announced half-year results on Thursday, rose 7.5p to 502p.

PowerGen said it had benefited from a 3 per cent increase in national electricity demand and above average performance of its two new gas-fired power stations.

Market share was higher than expected, at 24.5 per cent, although for the first time in any half, Nuclear Electric, the state-owned company, produced more electricity than PowerGen.

PowerGen said an agreement had been finalised to make it the lead project developer for a 900MW gas-fired power plant in Portugal.

It ruled out more buy-backs before the government's sale in February of its 40 per cent stakes in PowerGen and National Power. "The market conditions are not right," said Mr Ed Wallis, chief executive.

This is likely to be welcomed by some investors who would have viewed with anxiety the effect of buy-backs on the share price in the run-up to the 40 per cent share sales.

The dividend rise to 5p from 3.95p for the six months to October 2 comes at an awkward time politically as the Labour Party has gone on the offensive over some payments to shareholders by privatised companies.

PowerGen's 9.3 per cent increase in pre-tax profits to £118m ($193.52m) from £108m would have attracted little attention but the dividend rise will fuel criticism of the industry. PowerGen said the dividend rise was partly due to its policy of decreasing dividend cover to between 2.5 and 2.7 times and partly due to introducing a more "appropriate balance" between dividends in the two halves of the year.

Details, Page 29

Asset sales hold Volvo on course

By Hugh Carnegy in Stockholm

The rapid drive back to big profits this year by Volvo's car and truck divisions may have caught most of the attention, but a significant contribution to the Swedish manufacturer's nine-month surplus of SKr12.7bn ($1.75bn) came from a non-core asset disposal programme that has only just begun.

The net gain on asset sales in the first nine months contributed SKr4.2bn – or nearly one-quarter of the pre-tax profit – as Volvo began a strategy of focusing on core motor vehicle operations, adopted following the collapse late last year of a plan to merge with France's Renault.

These sales helped produce a marked strengthening of Volvo's financial position over the period. Net debt has been driven down from SKr14.5bn at the end of last year to SKr700m at the end of September, while the group's equity-to-assets ratio has risen from 21 per cent to 30 per cent.

This has put Volvo well on the road to achieving the financial strength it needs to underpin the long-term development of its car and truck businesses, now that it is not sharing costs with Renault.

The target set for the assets disposal programme by Mr Sören Gyll, chief executive, earlier this year was an equity-to-assets ratio of 50 per cent.

That target looks as though it will be comfortably exceeded as the biggest plums in the Volvo assets pie have yet to be sold. This year, Volvo sold its interests in Cardo, an industrial holding group, to the Wallenberg empire for a capital gain of SKr2.6bn; Custos, an investment company; Norway's Saga Petroleum; Cultor, a Finnish sugar producer; and Hertz, the car hire group.

Still to come, however, are Volvo's residual holding in Renault; its wholly-owned subsidiary BCP, a food and beverages producer; its 27.5 per cent stake in Pharmacia, one of the world's top 20 pharmaceutical companies by sales; and its Swedish Investment bank Alfred Berg.

At the recently-announced privatisation price for Renault, Volvo's 20 per cent holding is worth around FFr8bn ($1.5bn). At present market prices, Volvo's share in Pharmacia is worth around SKr9bn. Volvo is wary of putting a price on its remaining assets, but some estimates have reckoned the BCP, Pharmacia and Alfred Berg sales could raise between SKr40bn and SKr45bn gross.

Mr Gyll wants to complete the disposal programme by the end of 1996. Under an agreement with the Swedish government, which is the other main shareholder in Pharmacia, Volvo cannot sell its holding in the company until January 1996 at the earliest.

Most attention is therefore focused on how and when Volvo will sell off BCP, a company with turnover in the first nine months of SKr15bn and operating profits of SKr1.8bn. Volvo is understood to favour a direct sale to a corporate buyer, rather than a flotation. It says it has been in discussions with up to 30 potential buyers, although the only company so far to declare publicly its interest is Nestlé, the Swiss food group.

If there is no flotation, the most important issue will be whether BCP is split up or sold as a whole. Its main components are Swedish Match, a beverages division which makes Pripps beer and Ramlösa mineral water, and a food division with a big market share in Sweden.

Volvo says price will dictate whether BCP is broken up or sold intact.

When the asset disposals are complete, Volvo will certainly be a cash-rich motor company. Then it will have to show that it can achieve the same strong returns on the money in its car and truck operations as it did in its diversified investments.

Lower tax bill helps Telefónica

Telefónica de España, Spain's state-run telecommunications group, lifted consolidated net profit in the first nine months of 1994 by 17 per cent, to Pta86.61bn ($68.12m) from Pta73.72bn last time, AP-DJ reports from Madrid.

Pre-tax profit climbed 11 per cent to Pta104.65bn from Pta94.68bn. The high growth in net profit is attributable to the declining corporate tax burden, which is now around 17 per cent of profit.

However, with 7.6 per cent growth in operating expenses, group operating profits advanced 3.8 per cent to Pta289.7bn from Pta278.98bn.

Telefónica said subsidiaries' contributions to group pre-tax profits jumped to 15.7 per cent in the first nine months, from 9.5 per cent in the first half.

● Iberdrola, Spain's largest private electric utility, pushed up consolidated net profit in the first nine months of 1994 by 43 per cent to Pta60.05bn from Pta41.96bn last time.

Boots in £508m share buy-back

By Daniel Green and Paul Cheeseright in London

Boots, the UK retailer, yesterday spent £508m ($833.12m) buying back its shares on the stock market. The sum represents 60 per cent of the money it hopes to receive from the sale of its prescription drugs arm to BASF, the German chemical company.

The buy-back leaves Boots' management free to concentrate on acquisitions in over-the-counter (non-prescription) drugs, probably in Germany.

Once the BASF sale is completed, Boots will have about £500m in cash, although it refused to say whether this sum had been earmarked for its acquisition programme.

The buy-back came as BASF sought to reassure worried employees of their future under new ownership.

Boots employees' unions had expressed fears that BASF, which has a drugs division of its own, would seek to cut costs by cutting the division's 5,750 workforce, of which 1,600 people are in the UK. BASF said it wanted to integrate the Boots operations in collaboration with Boots management.

There are 575 Boots research and development staff in the UK and 295 in other countries.

Boots management will tell officials representing the workers on Friday that "virtually all" the pharmaceuticals division's employees will be transferred to BASF and that the Germany company will decide on their long-term future.

The interests of Boots smaller shareholders had prompted it to take the decision to buy back shares rather than pay a special dividend.

A dividend would "simply have transferred cash to shareholders, favouring those institutions who are tax exempt. The buy-back favours all shareholders," Boots said.

Lex, Page 20

BCI quiet as Ambroveneto deadline passes

By Andrew Hill in Milan

Banca Commerciale Italiana, the Milan-based bank, appears formally to have abandoned its attempt to gain control of Banco Ambrosiano Veneto, its quoted competitor.

BCI had hoped to acquire a 15 per cent stake by yesterday, as the basis for a formal L7,000-a-share offer for a 50.1 per cent stake in Ambroveneto. But the self-imposed deadline passed yesterday without comment from BCI.

Ambroveneto announced that its main shareholders – controlling a majority of the shares – had rallied to its defence on November 5, only three days after BCI revealed its intention to bid for control.

Crediop, a subsidiary of the Turin-based San Paolo banking group, and Crédit Agricole, the French bank, agreed to buy the 13.52 per cent stake offered to them by a group of small Veneto banks, and renew the shareholder syndicate of which they are members. BCI had hoped to buy the Veneto banks' stake.

Ambroveneto's shares closed yesterday at L4,354, up slightly on the opening price of L4,314.

BCI, which would have paid about L1,750bn ($1.1bn) for half of Ambroveneto, raised about L1,575bn with an issue of shares and warrants earlier this year. Conversion of the warrants before the end of next year would bring in a further L787bn. There is speculation the bank will use these funds on alternative expansion plans.

BCI's neighbour and rival, Credito Italiano (Credit), is still awaiting a decision from the Bank of Italy on whether it can go ahead with its planned bid for control of Bologna-based Credito Romagnolo (Rolo).

The central bank last week approved Rolo's proposal for a defensive merger with the group which controls the savings bank, Cassa di Risparmio in Bologna. Cariplo, the Milan-based savings bank, is watching the situation in case the merger does not go ahead.

Amer buys Atomic to expand sports side

By Christopher Brown-Humes

Amer of Finland is strengthening its position as the world's second-largest sports equipment group by buying Austria's Atomic group for Sch900m ($83.6m).

Atomic collapsed into bankruptcy in September after several years of losses. Amer, however, believes it can revive the company's fortunes, partly because of overlaps with its own activities.

The purchase will increase the Finnish company's commitment to its core business, while expanding its sports operations.

Atomic, the world's second largest manufacturer of alpine skis, has an 8 per cent share of the ski equipment market. It also ranks as Austria's biggest producer of equipment for alpine and cross-country skiing and in-line skating.

Its marketing names include Atomic, Dynamic, Koflach, Ess, Colt and Oxygen.

Mr Seppo Ahonen, Amer chief executive, said Atomic had a strong market position in Europe and Japan. "It operates globally, balancing the seasonal fluctuations of our present sporting goods businesses," he said.

Amer is a diversified company which combines sporting goods with car sales, tobacco processing, and printing and publishing.

However, the group wants to concentrate more on sporting and leisure goods. Sports equipment as a percentage of total sales will rise to 60 per cent following the purchase, compared with 48 per cent now.

Atomic, with annual sales of FM700m ($150.6m), has eight subsidiaries in Austria, Canada, France, Switzerland and the US. Around 56 per cent of sales are generated in Europe, 24 per cent in Japan and 19 per cent in North America.

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Japan postpones privatisation of JR West

By William Dawkins in Tokyo

The Japanese government yesterday shelved until next year the flotation of West Japan Railway (JR West), the latest in a series of embarrassing setbacks to its privatisation programme.

Mr Shizuka Kamei, transport minister, said the flotation would have "adverse effects on the stock market" if it took place as scheduled, in the current tax year to March.

He feared the value of the company, one of seven established from the 1987 break-up of Japan National Railways, "may not be recognised adequately".

The stock exchange believes the listing will take place after the company's annual results next June.

The postponement was seen by Tokyo stockbrokers as a government recognition of the market's dislike of its unique pricing system for new issues, in which the price is decided at a pre-offer auction among a restricted number of large investors.

This contrasts with the book-building system, used for most international equity issues, where professional advisers set the price after consulting the main institutional buyers.

Critics of the Japanese equity pricing system say it tends to set prices too high, a factor in the flop of the latest privatisation, of Japan Tobacco, the cigarette making monopoly, last month. The finance ministry was left with 280,000 Japan Tobacco shares after small investors spurned the issue. It traded yesterday at Y991,000 a share, well below its Y1.438m issue price.

As a result of the Japan Tobacco experience, the finance ministry has launched a review of the method of pricing flotations.

The delay to JR West's privatisation will leave another shortfall in the finance ministry's revenues this year. They have already been depleted by lower than expected income tax revenues.

However, the ministry is accustomed to the unexpected where privatisations are concerned. The 1990 stock market collapse forced it to delay reducing its stake in Nippon Telegraph and Telephone, still at 65.6 per cent, to the targeted 50 per cent. For the same reason, the government delayed the flotation of East Japan Railway, the only rail operator to have been privatised so far, for a year until 1993.

Investors hope Clarke will open market in UK repos

When the UK's chancellor of the exchequer, Mr Kenneth Clarke, presents his budget on November 29, gilt market participants hope he will announce the establishment of an open market in the UK for gilt repurchase agreements, or repos.

Although the UK has a limited repo and bond lending facility, pressure has been mounting for a system which would enable all market participants freely to borrow and lend government bonds between each other.

Government bond markets in other countries, including the US, France and Germany, have well-developed repo facilities. However, although London is the European centre of non-dollar repo business, the sterling sector has yet to see an all-encompassing repo system.

This may soon change. The Bank of England has spent the last year in close consultation with gilt market makers (Gemms) about a fully-fledged gilt repo market and is set to issue a consultation paper shortly. Many believe this will coincide with the Budget.

The UK has two types of gilt repurchase agreements. First, there are the Bank of England's fortnightly money market repos, under which the Bank lends two- and four-week funds to the market against the security of gilts. This facility is limited to banks with eligible liabilities of more than £1.5bn. ($2.46bn), building societies, discount houses and Gemms.

Alongside these, the Bank runs a system of stock borrowing and lending via a handful of stock exchange money brokers (SEMBs), accessible only to Gemms. This allows Gemms to finance their bond holdings and go short of stock, and enables investing institutions to lift their investment returns by earning income on the stock they lend.

This system has the advantage that the Bank of England can monitor daily the level of stock borrowing. However, many operators complain the system is inflexible and unfair to market participants who are not Gemms.

"An open repo would generalise the stock lending system that exists now, but it would allow everyone to have the same access to the facility, rather than just market makers," says Mr John Shepperd, at Yamaichi International, one of the 21 Gemms. "A repo system would put the gilt market on an international standard – the UK is idiosyncratic in not allowing it."

> The Bank of England is set to issue a consultation paper about a gilt repo market, writes Conner Middelmann

Observers say an open gilt repo market would have several advantages. "Repos would make the financing of long positions and covering of short positions more efficient, and thus add to the liquidity of the overall market," says Mr Danny Corrigan, head of repo trading at NatWest Markets. "In other markets, repos have enhanced liquidity," he says.

Such an increase in liquidity could attract more overseas participants, broadening the range of investors. "A lot of foreigners would be happier trading gilts if there were a repo market," says Mr Brian Plaistowe, at Nomura.

Many say the increased liquidity arising from a system of open repos could reduce market pricing anomalies, such as between high- and low-coupon stocks. Some say it could lead to a reduction in gilt yields, easing the government's cost of funding. "Additional liquidity will lead to tighter bid-offer spreads and reduce the funding costs for the Treasury," says Mr Corrigan.

"If a gilt repo market allows more effective cash management by corporates and financial institutions, this should benefit the economy on a wider view," adds Mr Ifty Islam, UK economist at Merrill Lynch.

Some argue that the establishment of an open repo market would require a change in the taxation of gilts, requiring gross payment of gilt income rather than the current system of paying dividends net of tax. This could result in a loss of tax revenue for the government in the first year because tax payments would be deferred, and the Inland Revenue might find it more difficult to collect all the tax due.

Mr Kevin Adams, UK bond strategist at BZW, says a repo market need not necessarily be accompanied by a change in the tax regime. "It is not clear how big a consideration tax actually is – a large number of gilt investors suffer nil or very low effective tax rates."

Although most observers say the benefits of repos override the disadvantages, the risks should not be ignored.

Repo participants face two types of credit risk: security and counterparty risk. The security risk is probably small, given that most such bonds are government securities with low default risk, but operators will have to pay close attention to the credit risk of their counterparties.

According to Mr Islam, the Bank of England may be worried that "by extending the range of institutions that can short gilts beyond the Gemms, over whom they have substantial influence, to others, most notably hedge funds, over whom they have much more limited power, they may lose control of the markets". There may be concern about the effects of greater participation of leveraged investors on market volatility, he says.

Such concerns mean that, if the UK authorities decide to set up a repo market, the Bank may follow a cautious strategy in implementing it.

Shell confirms key role for Woodside

By David Lascelles in Melbourne

Woodside, the publicly-quoted Australian oil and gas company, is to remain an important part of Shell's upstream operations in spite of recent changes in Woodside's ownership structure.

Mr Ric Charlton, chairman and chief executive of Shell Australia, said yesterday that Shell had no intention of reducing its interest in Woodside, which gives Shell enlarged access to the North West Shelf, Australia's largest oil and gas project.

Earlier this month, Broken Hill Proprietary, the Australian resources group, severed its ties with Woodside by selling its remaining 10 per cent interest. This consisted of 4.5 per cent owned directly and half of an 11 per cent stake owned jointly with Shell.

Shell also sold its half of that stake, rather than have to own it with a new partner. This reduced Shell's stake from 40 per cent to 34.27 per cent, prompting speculation that it was planning a gradual divestment. But Mr Charlton was enthusiastic about prospects for the North West Shelf project based around the liquefied natural gas plant at Karratha.

Woodside is the operator of the project, in which Shell also has a one-sixth direct interest. Other acreage owned by Woodside off Australia's north-west coast provided opportunities for expansion of production of oil and liquid petroleum gas, and further capacity would come on stream over the next two years. Mr Charlton said Woodside had recently made a promising oil find in the Timor channel.

Ric Charlton: enthusiastic about North West Shelf project

Mr Charlton said Shell Australia's restructuring had left it more robust, and closer to its target of a 15 per cent return on capital employed.

Last year, Shell Australia earned 9.3 per cent on capital, which Mr Charlton said was unsatisfactory. Since then, the company has floated off its metals interests in a new public company, Acacia, and cut its workforce by one-fifth. The resulting savings will help reduce gearing from 42 per cent in 1993 to 15-20 per cent by the end of this year.

Shell has modernised Geelong, one of its two refineries in Australia, raising its already dominant share of the domestic gasoline market. The company's strong cash position will enable it to take advantage of purchase opportunities.

Yamaha Corp rises 110% at halfway

By Our Financial Staff in London

Yamaha Corp, the world's largest maker of musical instruments and the leader of Japan's Yamaha group of companies, yesterday announced a 110 per cent rise in its unconsolidated recurring profits – before extraordinary items and tax – to Y6.15bn ($63.4m) for the six months to September, from Y2.92bn a year ago.

Net profits rose 149 per cent to Y3.05bn from Y1.22bn last time, as sales edged up just 2.8 per cent to Y176.95bn from Y172.14bn.

The dividend is held at Y3 per share.

Yamaha said its higher recurring profits resulted from both increased sales and its restructuring efforts.

As previously reported, Yamaha said it took an extraordinary loss of Y14.70bn in the first half in order to merge a money-losing Hokkaido resort development company with another subsidiary. The company said it sold Y14.66bn of marketable securities to offset the loss.

For the full year to March, Yamaha is forecasting recurring profits of Y4bn, up 83 per cent on last year's actual Y2.19bn, and net profits 237 per cent higher at Y2bn, against Y593m, on expected sales up 4 per cent to Y330bn from Y316.18bn.

On the Tokyo stock exchange yesterday, Yamaha shares closed Y40 higher at Y1,250.

The interim results were announced after the market had closed.

What it is and what it does

By Philip Coggan

A repo is, in essence, a loan agreement between two parties, in which bonds act as collateral.

The institution which owns the bonds, sells them to the counterparty and in return receives cash. At a set date in the future, the original bond owner agrees to buy back the bonds for a set sum. The buy-back sum will be higher than the original cash amount, with the difference reflecting the rate of interest on the loan.

Both parties, in theory, can gain from this transaction. The original bond owner gets finance at a cheaper rate than if it had borrowed without using collateral. It can also raise cash without missing out on a potential rise in the bond market.

Meanwhile, the lender receives interest at a better rate than if it had just deposited the cash with a bank, and has the comfort of the bonds as security for the loan.

If an interest payment is made on the bond during the life of the repo, then it will automatically be received by the counterparty. The normal practice is for the counterparty to pay it back to the original owner.

A repo market would allow investors to go short of gilts, that is, speculate that prices are due to fall. Investors go short by selling bonds they do not own. To do so, they need to be able to deliver bonds to the buyer.

They could do this in a repo market by borrowing bonds and agreeing to sell them back at a future date.

For the investor going short, this is a cheap way of financing a speculative position; for those lending the bonds, this is a way of earning extra income on their holdings.

Setback for Sumitomo Realty

By Emiko Terazono in Tokyo and agencies

Sumitomo Realty and Development, a Japanese property developer, saw sales and profits plunge in the first six months to September due to sluggish sales of high-margin condominiums.

Non-consolidated recurring profits – before extraordinary items and tax – fell 44.4 per cent to Y2.8bn ($28.7m), while sales nosedived 52.4 per cent to Y90.4bn. After-tax profits plunged 68.2 per cent to Y1.2bn.

Part of the decline in revenue was attributed to the fact that in last year's first half the company made a one-off sale of properties as it cut its real estate inventories.

Revenue from Sumitomo's real estate sales fell 75 per cent. Operating profits rose 2.7 per cent to Y20.8bn as the company eliminated Y8.1bn in aid to its financial subsidiary last year.

For the full year to next March, the company faces lower profit margins due to cuts in rent prices. It expects a 13.3 per cent fall in non-consolidated pre-tax profits to Y7.5bn on a 28.6 per cent drop in sales to Y200bn.

NEWS DIGEST

Japanese banker sees disappointing first-half earnings

Japan's leading commercial banks will post disappointing earnings for the first half of the current financial year, the president of the country's largest bank warned yesterday, writes Gerard Baker in Tokyo.

"Tough conditions are continuing," said Mr Toshio Morikawa, president of Sumitomo Bank and chairman of the Federation of Bankers' Associations of Japan. Mr Morikawa said his own bank would report a year-on-year decline in unconsolidated after-tax profits from core banking business for the six months to the end of September, as a result of poor profit margins. He blamed sluggish lending at home and increases in US interest rates for the difficult conditions.

Mr Morikawa added that write-offs of non-performing loans would continue to erode pre-tax and net profits for the entire banking sector. Japan's 21 leading banks have seen profits decline for four consecutive years and are expected to report another fall for the current full-year. They are scheduled to announce their half-year results on November 24.

Telecom Italia injunction overturned

Telecom Italia, Italy's state-controlled telecommunications operator, has won the second round of a legal battle with a smaller competitor attempting to break the company's monopoly in business services, writes Andrew Hill in Milan.

Telsystem, a small Milan-based company, wants to lease lines from Telecom Italia to construct virtual voice and data networks for business users, and has asked Italy's anti-trust authority to examine the case.

Pending a full decision, Telsystem won an interim injunction with a Milan court last month obliging Telecom Italia to lease lines. That injunction has now been overturned for what Telsystem described as procedural reasons.

Telecom Italia says it favours liberalisation in the sector – in line with EU rules which have yet to be implemented in Italy – but only if properly co-ordinated. Telsystem, which says its financial situation is gradually worsening, is pinning its hope on the outcome of the anti-trust investigation, expected next month.

BHP to sell fibre-optics unit to US group

Broken Hill Proprietary, the Australian resources group, is to sell AOFR, its fibre-optics products group, to Minneapolis-based ADC Telecommunications for an undisclosed sum, writes Nikki Tait in Sydney. BHP said the business – which claims to be the world's largest producer of fibre-optic couplers – required an established industry parent to maximise its growth potential, and ADC was better suited to this role. BHP acquired the business in 1990.

Separately, the company announced that Mr Frederic Hamilton, founder of the Hamilton Oil business which is a wholly-owned subsidiary of BHP, would step down as chief executive of the unit in December. Mr Hamilton will remain chairman, and the chief executive's role will be split between Mr James Riemersma, general manager of the Europe, Africa and Middle East division, and Mr Edward Blair, general manager of the Americas division.

General counsel appointed at AMP

Australian Mutual Provident, the large Australian life insurance group which owns the Pearl and London Life in the UK, yesterday said it was appointing Mr Gary Traill, formerly chairman of the Gadens Ridgeway law firm, to the new post of general counsel.

One of the tasks facing Mr Traill will be a re-examination the option of "demutualising" the AMP – that is, turning it into a company owned by shareholders.

Mr Ian Salmon, the AMP's previous managing director, indicated that this was not a possibility, but Mr George Trumbull, who moved from Cigna in the US to take over the top job at the AMP earlier this year, has indicated that demutualisation will be reconsidered.

Poor third quarter at Thai telecoms group

Shinawatra Computer & Communications, Thailand's leading telecommunications company, has reported disappointing third-quarter net profits of Bt1.23bn ($49.2m), writes William Barnes in Bangkok.

This lifts net profits for the first nine months 238 per cent to Bt2.44bn from Bt1.02bn last year. However, the latest figures have been lifted by a previously-announced extraordinary gain of Bt840m.

Advanced Information Services, the cellular telephone subsidiary, reported third-quarter profits of Bt400m lifting nine-month profits to Bt1.18bn from Bt 628m. Another unit, United Communications, saw its third-quarter net profits rise to Bt576m from Bt62m by unexpectedly strong mobile phone subscriptions. Nine-month profits stand at Bt1.44bn.

Kuok confirms talks

Mr Robert Kuok, the Malaysian-Chinese millionaire who is the largest shareholder of South China Morning Post (Holdings), confirmed yesterday that the Hong Kong publisher plans to launch a financially-oriented English-language paper in China, AP-DJ reports from Hong Kong.

He said the company was in talks with a mainland partner, which he did not name, about launching a financially-oriented English paper in China, although he expressed uncertainty that a deal could be reached to print and distribute such a paper in China.

INTERNATIONAL COMPANIES AND FINANCE

Big US retailers advance sharply in third quarter

By Richard Tomkins in New York

Three of the biggest retailing groups in the US - J.C. Penney, Dayton Hudson and Home Depot - yesterday reported strong increases in earnings for the three months to October.

Their results coincided with the latest monthly report from the US Commerce Department showing that retail sales rose by 1.1 per cent overall in October and by 0.6 per cent excluding the volatile auto sector. Both figures were much higher than expected.

J.C. Penney, enjoying a third consecutive year of strong sales and record earnings, increased third-quarter net income by 24 per cent to $274m from $221m, excluding an extraordinary charge in the year-earlier period. Earnings per share, excluding extraordinary charges, rose to $1.04 from 83 cents.

The increase was flattered by a one-time tax charge the previous year: pre-tax profits were up rather less, by 13 per cent. The gain also reflected a 9 per cent increase in sales revenues, which the company attributed to better targeting of goods in its stores and catalogue.

Dayton Hudson, owner of the Target and Mervyn's store groups, saw a surge in net income to $67m from $43m, with fully diluted earnings per share rising to 83 cents from 53 cents. Total revenues rose by 9 per cent to $5.05bn, while same-store revenues increased 3 per cent.

The company said Target had continued its strong performance, and Mervyn's, which suffered difficulties last year partly because of the sluggish Californian economy, had improved from a low base. The department store division, however, had come in slightly below expectations, with operating profits unchanged.

Home Depot, the biggest home improvement retailer in the US, reported a 36 per cent surge in third-quarter net income to $141m from $103m, with earnings per share rising to 31 cents from 23 cents.

Sales revenues rose by 40 per cent to $3.2bn, while on a comparable store-for-store basis they rose by 9 per cent. During the quarter the company opened 15 new stores, including 13 in the US and two in Canada.

● Tiffany, the US jeweller, increased net income to $4.7m from $3.3m on sales up from $135m to $160m. It said the figures reflected strong retail sales growth in the US, where same-store sales were up 12 per cent, and in Japan.

Merck purchase under scrutiny

By Richard Waters in New York

Merck, the biggest drugs maker in the US, confirmed yesterday that its $6.7bn acquisition of Medco Containment Services was being reviewed by anti-trust regulators, more than 10 months after the deal was completed.

The Federal Trade Commission is also looking into the $2.3bn acquisition earlier this year of Diversified Pharmaceutical Services, another pharmacy benefits management company, by the Anglo-US drugs group SmithKline Beecham.

The reviews mark a new interest by regulators in the way some drug manufacturers in the US have bought control of distribution companies.

Both companies said they believed they had already satisfied any concerns that the regulators may have.

"We are confident that this review, as was the case with the FTC's review performed last year, will demonstrate the pro-competitive effects" of the Medco acquisition, Merck said.

The $4bn takeover by Eli Lilly of PCS, another distributor, was given FTC clearance two weeks ago, but only after a consent agreement with the regulators which laid down several conditions.

This agreement was seen at the time as an indication of the FTC's renewed interest in the area, in spite of the fact that it had earlier cleared the Merck and SmithKline deals.

In a statement on the Lilly decision, the two FTC commissioners who backed the deal in a 2-1 majority decision warned: "We remain concerned about the overall competitive impact of vertical integration by drug companies into the pharmacy benefits management market."

In spite of its earlier approval for the deals, the FTC has the power to review Merck and SmithKline's activities to see if they have led to any breach of anti-trust laws.

The agreement with Lilly has been seen in the drugs industry as a blueprint for the sort of conditions that the regulators may try to impose on the other companies. The main elements of this were a "firewall", to prevent pricing information about other drugs sold through the distributors being leaked to Lilly, and a requirement for Lilly to maintain an "open formulary" under which customers can continue to receive any pharmaceuticals through PCS's drug plans.

Both Merck and SmithKline said they already met both of these requirements. "We believe any agency concerns are already addressed by the manner in which Medco conducts its business," Merck added.

Chip maker set to raise $480m from share issue

By John Ridding in Paris

SGS-Thomson, the Franco-Italian semiconductor manufacturer, has announced plans to raise up to $480m through the issue of shares on the New York and Paris stock markets.

The operation is a significant step in the development of the semiconductor group, which was formed in 1987 through the merger of state-owned groups Thomson Semiconductor of France and Italy's SGS Microelectronics.

Analysts in Paris said the issue of shares, which will represent about 20 per cent of the company's enlarged capital, would reinforce its balance sheet and could mark a step towards privatisation.

The decision to raise capital on the stock market follows a strong improvement at the company, which is Europe's second largest semiconductor manufacturer. Last month it reported net profits of $166.1m for the six months to the end of July – more than for the whole of the previous financial year. Sales for the current financial year are expected to rise by about 20 per cent, compared with the $2bn recorded in 1993. The debt to equity ratio stood at about 25 per cent at the end of July.

Profits at SGS-Thomson have been boosted by the upswing in the international semiconductor market and by reduced financial charges following two capital increases of $250m last year. The company's principal products include semiconductors for telecoms, computers and control systems. Its main markets are Europe, North America and the Asia-Pacific region.

Under the terms of the issue, 21m shares will be offered. Just over 13.6m will be offered to investors in the US and Canada, with the balance being offered in other countries.

In addition to listings on the New York and Paris stock exchanges, the shares are expected to be quoted on Seaq International. SGS-Thomson is also considering a quotation on Telematico, the Italian screen-based dealing market.

The shares are to be priced at between $21 and $23. Morgan Stanley will be global co-ordinator and lead manager of the issue, with Banque Indosuez and Lehman Brothers as co-global co-ordinators.

US stock funds remain in favour

Rising rates have not deterred investors, writes **Patrick Harverson**

Although the increase in US interest rates this year has taken its toll on stock and bond markets, the equity mutual fund business in the US has held up remarkably well.

The hundreds of billions of investor dollars which flowed into stock funds during the early 1990s as rates tumbled have not flowed out again because rates have reversed course. Even though interest rates may go up further this year (the Federal Reserve is expected to tighten monetary policy again this week after yesterday's meeting of its Open Market Committee), analysts believe investor confidence in stock funds is solid.

So far this year both short- and long-term interest rates have risen sharply. The rate on overnight bank loans has climbed to about 5 per cent from 3 per cent, and long-term interest rates (as measured by the yield on the 30-year government bond) have jumped to 8.1 per cent from a low of 5.8 per cent.

Also, the stock market has performed poorly – the Standard & Poor's 500 index has fallen just under 1 per cent so far this year.

Yet, in spite of rising rates and flat share prices, individuals and institutions have continued to favour equity funds over other forms of investments. In the third quarter, net new sales of stock funds averaged $10.5bn a month, slightly higher than the $10.4bn a month rate recorded in the same three months of 1993, the year sales broke all records.

Money continues to flow into stock funds at rates comparable to last year because of several factors, including changing demographics among investors. In the past few years, millions of "baby boomers" born in the 1950s and 1960s have reached middle-age and have begun to save more of their income to pay for their children's education and their own retirement.

As relatively sophisticated savers, many have chosen to invest in stock funds, which they believe guarantee the best return of any form of investment over the long-term. A year of rising interest rates and a dull stock market is not going to persuade these investors to take their money out of funds.

As Mr Richard Hoey, chief economist at the Dreyfus investment fund group in New York, says: "There is a portion of the market where there's an underlying demand to invest in assets for longer-term reasons."

Another factor is the continuing popularity of foreign stocks. With share prices flat at home, more investors are looking to benefit from the growth potential of overseas markets by investing in international equity funds offered by US money managers. Mr Todd Schapera of the Boston-based Scudder investment group says that significant amounts of money have continued to flow into international equities funds in recent months.

For the industry as a whole, net new sales of international funds have been averaging $2.7bn a month so far this year, up from $1.6bn a month in the same period of 1993.

A third factor supporting demand for stock funds has been the lack of an attractive alternative. While short-term interest rates have risen from their 30-year lows of late 1993, returns on short-term investments remain meagre by historical standards. Bank certificates of deposit and money market mutual funds today yield no more than between 4 per cent and 5 per cent, while some stock funds have been able to provide investors with returns as high as 9 per cent or 10 per cent. They have been able to do this by avoiding interest rate-sensitive sectors and concentrating on stocks of companies whose performance is closely tied to the economy.

As for long-term bond funds, they have been decimated by the rise in interest rates, which provoked the biggest bond market crash in a generation. As bond prices plummeted, investors rushed to take their money out of bond funds to protect the value of their principal. In the third quarter, bond funds suffered net outflows of cash at the rate of $3.5bn a month.

Although some of that money will have gone into stock funds, much of it appears in the last month or so to have gone into money market funds, where investors are willing – at least temporarily – to live with the low returns in exchange for the knowledge that their capital is relatively secure. The total of assets in money market funds held steady around $580bn between January and September this year, but suddenly jumped in October to more than $616bn.

Mr Roger Servison, managing director at Fidelity Investments, the largest mutual fund group in the US, says the total of money market fund assets should climb even higher as the year progresses. "People are looking to protect their principal until they feel that long-term rates have settled down . . . What we've seen in our own market surveys is that most investors feel interest rates are still going higher."

Yet, Mr Servison says that at some stage interest rates will peak, and when they do investors may begin to look at bond funds again, hoping to lock in high yields after having escaped the worst of the slump in bond prices. This could lead to some switching of money from stock funds into bond funds.

Determining when the current cycle of interest rate increases will end, however, will not be easy given the Fed's reluctance to discuss future policy. Although many Wall Street analysts believe that if the central bank raises rates this week it could be the last tightening for a couple of quarters, investors are unlikely to want to bet on them being right just yet. As Mr Servison says: ""The $64,000-question is - will the next move be enough to change investor expectations?"

US mutual funds: net new cash flows ($bn)

1994	Equity	Bond & Income
January	18.4	11.0
February	14.4	1.1
March	6.6	-7.7
April	11.3	-4.8
May	11.8	-2.1
June	7.7	-1.7
July	9.2	-2.9
August	14.1	-2.8
September	8.1	-4.8

Source: Investment Company Institute

FDA approves Schering-Plough anti-allergy drug

By Richard Waters

Schering-Plough became only the second company in the US to win approval for a prescription drug which combines an antihistamine with a decongestant, strengthening its position in the growing market for anti-allergy products.

Claritin-D, which was cleared by the US Food and Drug Administration late on Monday, will compete with Seldane-D, a Marion Merrell Dow drug. Launched in the US in August 1991, Seldane-D had sales of $142m last year.

The basic form of Claritin, which does not contain a decongestant, has become one of the fastest-growing new products for Schering-Plough. Sales of the drug around the world, together with sales of Claritin-D in those countries where it already has approval, grew to $380m in the first nine months of this year, from $295m in the whole of 1993.

Schering-Plough estimates that 14m of the 35m hay fever sufferers in the US also experience congestion as a major symptom, and therefore could benefit from the new drug.

Both Claritin and Seldane are non-sedating drugs, which unlike traditional antihistamines do not induce drowsiness in patients. According to IMS, a research firm, the total market for such drugs last year was worth around $1bn.

Difficult third term for Portuguese banks

By Peter Wise in Lisbon

Third-quarter results for Portugal's banks were the worst for almost a decade. The once-buoyant sector has been hit by recession, tougher competition and a collapse in bond trading profits.

Of the 12 banks that have posted results for the first nine months, nine have recorded a decline in net earnings, compared with the same period last year. State-owned Caixa Geral de Depósitos (CGD), the biggest bank, is the only one of the top ten to report a profit increase.

Competitive pressures have intensified since liberalisation of the previously state-dominated sector began in the mid-1980s. As a result, financial margins – the difference between the rates at which banks raise funds and lend to customers – have fallen to an average of 3 per cent from 7 per cent in 1989.

This has hit one of the main sources of bank earnings. Mr Miguel Namorado Rosa, an economist with Banco Comercial Português, calculates revenue from financial margins for the banking sector as a whole at about Es620bn ($4.8bn) in 1994, Es84bn less than last year.

Two years of recession to mid-1994 have squeezed bank profits. Credit to the private sector is forecast to grow by 8.5 per cent this year, down from 13.3 per cent last year. Non-performing loans are increasing as a proportion of total credit and deposit growth has been almost stagnant since 1992.

Banco Totta e Açores, which posted the biggest drop in earnings among the top five banks, blames a 16 per cent increase in provisions against bad debt for a 21.6 per cent slide in net profits to Es14.9bn.

Bankers expect business to deteriorate further in the last quarter before beginning to pick up, with an economic recovery forecast for 1995.

Banks are estimated to have lost nearly Es90bn this year as a result of a sharp drop in interest rates on government debt securities. The combined loss from lower margins and trading losses is more than the sector's total 1993 profit of Es172bn.

But the real impact of the bond markets' collapse may not yet have emerged because many Portuguese banks register bonds in their investment portfolios at purchase value and fail to report trading losses in their accounts.

The fall of only 1.7 per cent in non-consolidated pre-tax earnings for Banco Português do Atlântico, the second biggest bank, might have been considerably larger if such losses had been fully reflected in results, one Lisbon stock market dealer said.

Analysts also said some banks "window dress" results by domiciling credit in offshore centres to escape provisioning requirements, and generally underprovision for credit risks, although meeting their legal obligations.

Portugal's leading banks by assets: 1994 third-quarter results (Es bn)

Bank	Net consolidated profit	Change on year (%)
Caixa Geral de Depósitos	32.4	16.9
Banco Português do Atlântico*	16.8	-1.7
Banco Totta e Açores	14.9	-21.6
Banco Espírito Santo	14.4	-7.7
Banco Comercial Português	13.2	-9.7

* Non-consolidated pre-tax profit. Source: Carregosa Portugal

Loblaw rises in third quarter

By Robert Gibbens in Montreal

Loblaw, Canada's biggest food distributor, posted a 37 per cent rise in third-quarter net profit to C$33.5m (US$24.69m), or 39 cents a share, on sales of C$3.1bn, up 7 per cent.

Loblaw, controlled indirectly by the Weston family, said sales were up 10 per cent in eastern Canada, flat in the west and up 9 per cent in the US. Operating net income was up 36 per cent to C$75.7m.

Nine-month net profit was C$84.3m, or C$1 a share, up from C$67.3m, or 76 cents, on sales of C$7.6bn against C$7.2bn.

Celsius ahead 29% to SKr644m at nine months

By Christopher Brown-Humes in Stockholm

Celsius, the Swedish defence group, yesterday announced income after financial items of SKr644m ($88.4m) for the first nine months, a 29 per cent increase from SKr499m in the same 1993 period.

This year's performance reflected a strong operating result and some capital gains, whereas a year ago it was strong money market returns on the back of falling interest rates which generated most of the profit.

The improved operating profit of SKr449m, against SKr196m, was due mainly to rationalisation.

On top of this there was a SKr143m capital gain from the sale of 40 per cent of Safe Partners, an offshore company, in September.

However, the overall result was dragged lower by bond market turbulence, which dramatically lowered the returns on the group's money market portfolio. The result was a sharp drop in financial income for the period to SKr52m from SKr303m.

The group expects a full-year profit of around SKr900m.

ABB plans to sell off telecoms equipment unit

By Alan Cane

Asea Brown Boveri, the Swiss-based industrial group, is planning to sell off its telecommunications equipment manufacturing arm, ABB Nera.

An initial placing will be made with a group of institutional investors before the rest of the company is floated on the Oslo stock market early in the new year.

ABB has been progressively concentrating on its core business of electrical engineering. Mr Asbjorn Birkeland, Nera's managing director, said yesterday the sell-off was in the interests of both companies. The unit would retain its existing management and would find it easier to raise funds for expansion as an independent company.

Formed in 1987, Nera has been growing at an average 20 per cent a year, he said.

Based in Bergen, Norway, Nera employs about 1,450 people and claims to be one of the largest manufacturers of equipment for satellite-based mobile communications.

Last year it turned over NKr2bn ($29.8m), with profits before tax of about 5 per cent of sales. Some 80 per cent of sales are made outside Norway. It has manufacturing agreements with AT&T of the US and has worked on projects with Sweden's Ericsson.

RESIDENTIAL PROPERTY

INTERNATIONAL CAPITAL MARKETS

US Treasuries jump on news of rise in rates

By Lisa Bransten in New York and Martin Brice in London

US Treasury prices jumped early yesterday afternoon after the Federal Reserve took the expected step of raising the target for its federal funds rate.

The benchmark 30-year government bond was up 30/32 at 93 22/32, yielding 8.012 per cent.

At the short end of the maturity range, the two-year note rose 5/32 to 99 21/32, to yield 6.977 per cent.

The markets were cheered by the news that the Federal Reserve's open market committee had voted to boost the target rate by 75 basis points, to 5½ per cent.

Analysts had expected an increase of at least 50 points, and believed the markets had already accounted for a 50-point increase.

The market therefore took the news that the Fed increased the target rate by *more than expected* as a sign that the central bank was willing to continue a tough stance against inflation.

Some economists had predicted the Fed would raise rates as much as 100 basis points, but were worried that such a large move might weaken the central bank's ability to respond to strong economic news later in the year.

The next meeting of the open market committee is scheduled for December.

The Fed cited the highest capacity utilisation figures since February 1980 as its main reason for the rate increase.

Earlier in the morning, it had announced that the economy was using 84.8 per cent of its capital stock for the production of goods, and a 0.7 per cent increase in industrial production.

Economists had anticipated a 0.6 per cent increase in industrial production and capacity utilisation of about 84.8 per cent, but the actual figures were considered generally in line with expectations.

Bond prices dipped early in the morning following the announcement that retail spending for October grew by 1.1 per cent – analysts had expected an increase of about 0.6 per cent.

However, they bounced back later in light trading as traders awaited an announcement on interest rate policy. Just before the Fed's announcement, prices were close to their late-Monday levels.

"It is mostly people going flat before the [Fed's] numbers," said one bond trader at a large Wall Street securities firm.

"The bottom line is that the Fed's actions will outweigh the retail sales numbers and capacity utilisation and industrial production numbers," he added.

GOVERNMENT BONDS

■ European government bond markets drifted higher yesterday as investors waited for the result of the Federal Reserve meeting in the US.

Mr Simon Maggs of IBJ in London said: "Trading has been very thin ahead of the FOMC meeting, but European markets will be moving on the back of that meeting tomorrow."

Most markets followed German government bonds upwards, although Italy registered a fall as investors took stock of the difficulties the government is having in enacting budgetary reforms.

■ German bunds broke through an important resistance point at 90.50 and the December bund futures contract ended at 90.69, up 0.41 on the day, in light trading.

Mr Karl Haeling at Deutsche Bank in Frankfurt said: "Breaking through that point makes it very tempting to get bearish."

However, he pointed out that if there were a rally in bunds, investors were likely to shift into US Treasuries.

■ UK government bonds followed bunds up in thin trading and the December long gilt future closed around 102¼, up 5/16. The yield spread over bunds was 135 basis points.

A £250m tranche of 8¾ per cent Treasury stock due 2017 was exhausted in afternoon trading. The bonds were supplied at 102.28, the Bank of England said.

The tranche was one of four tap stocks announced on November 4. Two others, a £250m tranche of 8½ per cent stock due 2005 and £100m of 2½ per cent index-linked stock due 2000 have already been exhausted. Another £100m tranche of 2½ per cent gilts due 2024 has not been sold out.

While the sale of the tranche suggested demand for gilts, some analysts believed the bonds had been bought by market-makers and would continue to hang over the market until sold on to investors.

A raft of UK data is due out this morning, encompassing figures on government borrowing, inflation, employment and wages, as well as the minutes of the September 28 monetary policy meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England.

■ The yield on the 10-year Italian bond rose by 4 basis points to 11.91 per cent. Mr Adrian James at NatWest said this was due to worries over budgetary change. "Clearly the populace is unhappy about the pension reform," he said.

■ The yield on the benchmark 11-year Swedish bond fell to 10.84 per cent from 10.88 per cent. Mr Simon Maggs at IBJ said the markets "believe the honeymoon is over for Swedish bonds".

Sanctuary finds home in the US

By Richard Lapper

The successful private placement of $75m of senior debt with four US institutional investors by Sanctuary Housing Association brings a new type of borrower to the US capital markets.

"It is a horse of a different colour," explained Mr Conrad Owen, assistant director in Hambros Bank's bond division.

The bonds, which mature in 2011, were issued at 120 basis points over the interpolated US Treasury bond rate. Proceeds were then swapped into sterling, raising the equivalent of £47.9m. The use of an independent AAA-rated swap counterparty was described as a "key aspect" of the deal.

Exact terms were not disclosed but the funds were achieved at terms "competitive to those available to Sanctuary in the UK", said Mr Owen.

In recent deals in the UK, housing associations have borrowed long-term funds at 150 to 170 basis points over equivalent gilt rates.

However, funding has frequently been difficult to obtain, said Mr Owen. Banks are prepared to make loans over five to seven years, while the UK debenture market will look at deals of 20 to 25 years.

"Between this range, funding has really not been available in appreciable quantities from any UK source," said Mr Owen.

Government backing for housing associations was seen as positive by investors, said Mr Owen. UK housing associations have obtained 50 per cent of their funding from a government grant since 1988.

The government stake is subordinate to private financing. "This was an important element in the sale pitch. It was a big issue," explained Mr Owen.

In addition US institutions were impressed by the low level of rent arrears and vacant property which Sanctuary boasts, in common with other housing associations.

Mr David Knowlton, director of finance at Sanctuary, said he had little doubt that US investors will be keen to do further transactions and hoped "other associations are able to tap in to what is undoubtedly a major source of funding".

Italy announces terms of Y450bn euroyen offering

By Graham Bowley

The Republic of Italy's long-awaited euroyen offering will consist of three tranches, of Y125bn of three-year, Y200bn of 10-year and Y125bn of 20-year bonds, the Italian Treasury said last night.

The three-year tranche is likely to carry a coupon of 3⅞ per cent, the 10-year tranche a coupon of 5.0 per cent and the 20-year tranche a coupon of 5.5 per cent, market sources said.

The deal, due to be launched early this morning, will be lead-managed by Daiwa, with Nomura as joint book-runner on the three and 20-year tranches.

The three-year tranche is targeted mainly at Japanese retail investors, while the 20-year tranche hopes to find demand among Japanese institutional investors, Daiwa said.

Daiwa hopes that the 10-year tranche will excite some interest among Asian investors outside Japan and among European investors.

The offering, the third time Italy has tapped the yen market this year, is likely to complete its foreign borrowing programme for 1994.

INTERNATIONAL BONDS

The Hellenic Republic is also rumoured to be close to launching its global dollar offering, which is expected to focus on the five-year area. Joint-lead manager Salomon Brothers was last night unable to comment on the size and terms of the offering.

With market attention occupied by the outcome of the US Federal open market committee meeting and by a series of new US economic statistics, there was little new issuance in the eurobond market yesterday.

In the Dutch guider sector, Asfinag, the sovereign Austrian financing authority, launched a Fl 300m offering of eight-year bonds, priced to yield 20 basis points over Dutch government bonds.

About Fl 150m of the offering was bought by Dutch institutions, lead manager ABN Amro said, with Belgian retail investors also showing some interest.

The proceeds were swapped into floating-rate Austrian schillings.

In the dollar sector, Sampo Corporation launched a $50m offering of seven-year bonds offering a coupon of 2.75 per cent and callable after five years.

Japan's Electric Power Development Company is rumoured to be poised to tap the dollar sector with a $300m offering of five-year bonds, IBJ is said to have the mandate to lead the deal.

In the Luxembourg francs sector, the Republic of Portugal launched a LFr2bn offering of bonds due January 2005, lead-managed by Kredietbank.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Sampo Corp.(a)§	50	2.75	100.00	Nov.2001	2.50	-	Jardine Fleming
YEN							
Swedish Export Credit★	15bn	3.75	99.99	Nov.1997	0.30	-	Nomura International
Landwirt. Rentenbank★	10bn	zero	85.50	Dec.1998	undiscl.	-	Norinchukin International
Rabobank Nederland★	10bn	zero	85.45	Dec.1998	undiscl.	-	Norinchukin International
GUILDERS							
Asfinag	300	7.625	99.925R	Dec.2002	0.30R	+20(8¼%-02)	ABN Amro Bank
LUXEMBOURG FRANCS							
Republic of Portugal	2bn	8.25	102.45	Jan.2005	2.00	-	Kredietbank

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Unlisted. §Convertible. R: fixed re-offer price; fees are shown at the re-offer level. a) Conv price fixed today at equity closing price. Callable after 5 yrs subject to 140% hurdle. Puttable in 5 yrs to yld T's +50bp.

India fund from Lazard

By Conner Middelmann

Lazard Investors is to launch an Indian equity fund this week in conjunction with BK Birla, the Indian business group, and the Bombay-based merchant bank Creditcapital Finance Corporation, in which Lazard holds 40 per cent.

Lazard Birla India Investment Trust (LBIIT) hopes to raise $100m for the fund, which plans to invest primarily in shares in companies listed on one of India's stock exchanges, securities offered by Indian companies on global markets, and in privatisation issues and IPOs of Indian companies.

Shares in the fund, which is to be listed in London and Mauritius, will be sold from tomorrow at $1 each, with a minimum investment of $5,000. For every five shares investors will receive one warrant to buy further shares at $1 on February 28 in any year between 1996 and 2005.

Mr Adrian Evans, a managing director of Lazard Brothers and chairman of the LBIIT, expects two-thirds of the fund to be placed with institutional investors.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	90.2900	+0.170	10.61	10.71	10.10
Belgium		7.750	10/04	96.8000	+0.360	8.23	8.48	8.24
Canada *		6.500	06/04	84.0000	+0.950	9.04	9.25	9.03
Denmark		7.000	12/04	86.5700	+0.870	8.75	9.02	8.68
France	BTAN	8.000	05/98	102.0700	+0.195	7.47	7.58	7.46
	OAT	6.750	10/04	90.9200	+0.310	8.11	8.29	8.02
Germany Bund		7.500	11/04	100.7000	+0.610	7.40	7.66	7.34
Italy		8.500	08/04	82.3100	+0.200	11.58†	12.00	11.68
Japan	No 119	4.800	06/99	102.9670	−0.050	4.04	4.10	4.01
Japan	No 164	4.100	12/03	96.0860	−0.150	4.72	4.74	4.70
Netherlands		7.250	10/04	98.4000	+0.520	7.48	7.68	7.28
Spain		8.000	05/04	81.8000	+0.390	11.18	11.37	10.92
UK Gilts		6.000	08/99	90–20	+11/32	8.43	8.59	8.32
		8.750	11/04	87–26	+16/32	8.58	8.73	8.47
		9.000	10/08	103–10	+17/32	8.59	8.70	8.46
US Treasury *		7.875	11/04	99–25	+20/32	7.91	8.03	7.62
		7.500	11/24	93–22	+30/32	8.08	8.16	7.85
ECU (French Govt)		8.000	04/04	84.3200	+0.380	*8.47	8.67	8.41

London closing, *New York mid–day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	7¾	One month	5.49	Two year	7.05
Broker loan rate	6½	Two month	5.30	Three year	7.37
Fed.funds	5⅝	Three month	5.48	Five year	7.67
Fed.funds at intervention	-	Six month	5.89	10-year	7.94
		One year	6.51	30-year	8.09

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.24	111.38	+0.36	111.40	111.16	135,791	129,304
Mar	110.42	110.58	+0.36	110.58	110.34	3,590	16,205
Jun	109.58	109.72	+0.36	109.66	109.50	342	2,957

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Nov	PUTS Dec	PUTS Mar
110	1.50	1.98	2.10	0.13	-	-
111	0.72	1.43	-	0.38	1.88	-
112	0.26	1.00	-	0.89	-	-
113	0.07	0.67	-	1.70	-	-
114	0.02	0.38	-	-	-	-

Est. vol. total, Calls 46,263 Puts 23,499 . Previous day's open int., Calls 313,165 Puts 282,821.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.45	90.65	+0.37	90.73	90.37	120880	178762
Mar	89.50	89.76	+0.40	89.81	89.46	6329	28161

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9050	0.57	0.66	0.82	0.98	0.42	1.30	1.58	1.72
9100	0.34	0.39	0.64	0.79	0.69	1.63	1.88	2.03
9150	0.18	0.27	0.48	0.62	1.03	2.01	2.22	2.36

Est. vol. total, Calls 29980 Puts 11837. Previous day's open int., Calls 266682 Puts 236367

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.84	101.28	-0.35	101.87	101.18	30298	53940
Mar	100.82	100.32	-0.34	100.87	100.30	2180	10152

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
10100	0.66	1.90	0.40	2.58
10150	0.42	1.69	0.64	2.87
10200	0.22	1.49	0.94	3.17

Est. vol. total, Calls 3093 Puts 2427. Previous day's open int., Calls 28349 Puts 33368

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.25	87.24	+0.13	87.37	87.15	28,949	77,337
Mar	86.35	86.50	+0.07	86.35	86.35	880	2,747

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101-28	102-01	+0-10	102-07	101-23	42635	100712
Mar	101-01	101-07	+0-10	101-11	100-31	2163	6109

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
102	0-39	1-33	0-37	2-19
103	0-15	1-06	1-13	2-58
104	0-04	0-50	2-02	3-36

Est. vol. total, Calls 7462 Puts 13302. Previous day's open int., Calls 75626 Puts 49718

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	81.02	81.38	+0.38	81.38	81.02	2,608	6,280

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	97-08	97-04	-0-03	97-13	96-28	301,547	390,871
Mar	96-18	96-15	-0-04	96-24	96-08	9,405	51,330
Jun	96-01	95-28	-0-09	96-01	95-22	287	11,746

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int
Dec	107.90			107.95	107.88	1411	0
Mar	107.22			107.27	107.20	1927	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Nov 15	Day's change %	Mon Nov 14	Accrued interest	xd adj. ytd		Low coupon yield Nov 15	Nov 14	Yr. ago	Medium coupon yield Nov 15	Nov 14	Yr. ago	High coupon yield Nov 15	Nov 14	Yr. ago
1 Up to 5 years (24)	119.86	+0.19	119.63	1.82	9.83	5 yrs	8.51	8.57	6.08	8.56	8.62	6.31	8.68	8.77	6.45
2 5-15 years (23)	139.58	+0.33	139.12	1.71	11.49	15 yrs	8.48	8.53	6.95	8.60	8.65	7.08	8.84	8.89	7.27
3 Over 15 years (8)	156.29	+0.51	155.50	2.62	10.87	20 yrs	8.46	8.51	7.05	8.60	8.65	7.13	8.75	8.82	7.29
4 Irredeemables (6)	175.76	+0.23	175.37	0.62	13.47	Irred.†	8.55	8.57	7.16						
5 All stocks (61)	136.90	+0.32	136.47	1.90	10.93										

Index-linked							Inflation 5% Nov 15	Nov 14	Yr. ago	Inflation 10% Nov 15	Nov 14	Yr. ago
6 Up to 5 years (2)	186.23	+0.08	186.07	0.61	5.07	Up to 5 yrs	4.06	4.09	2.30	2.97	2.99	1.53
7 Over 5 years (11)	173.83	+0.12	173.62	1.06	4.36	Over 5 yrs	3.87	3.87	3.13	3.69	3.70	2.96
8 All stocks (13)	174.24	+0.12	174.03	1.01	4.41							

Debentures and Loans						5 year yield Nov 15	Nov 14	Yr. ago	15 year yield Nov 15	Nov 14	Yr. ago	25 year yield Nov 15	Nov 14	Yr. ago
9 Debs & Loans (77)	127.71	+0.50	127.08	2.25	9.82	9.62	9.68	7.68	9.59	9.65	8.06	9.56	9.61	8.21

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 15	Nov 14	Nov 11	Nov 10	Nov 9	Yr ago	High*	Low*
Govt. Secs. (UK)	91.83	91.22	91.03	91.45	91.39	103.84	107.04	89.54
Fixed Interest	107.92	107.66	107.92	107.94	107.69	124.15	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 14	Nov 11	Nov 10	Nov 9	Nov 8
Gilt Edged bargains	75.3	80.3	81.8	84.0	80.4
5-day average	80.4	81.2	82.4	81.3	82.0

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	1994 High	1994 Low
Shorts" (Lives up to Five Years)							
Treas 9pc 1994‡‡		8.99	-	100⅛xd	—	103½	100
12pc 1995		11.86	5.78	101⅛	—	107⅛	101⅛
Exch 3pc Gas 1990-95		3.04	5.70	98¾	—	98½	97¾
10¼pc 1995		10.00	6.38	102½	—	107½	102½
[illegible]							

Other columns of the UK Gilts Prices table (Five to Fifteen Years, Over Fifteen Years, Undated, Index-Linked, Other Fixed Interest): [illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 15

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	87¾	88⅛	+¼	8.58
Alberta Province 7⅝ 98	1000	98⅞	99⅛	+⅛	7.95
Austria 8½ 00	400	101¾	102⅛	+⅛	8.05
Bank Ned Gemeenten 7 99	1000	96¼	96½	+¼	7.96
United Kingdom 7¼ 97	5500	101	101⅛		6.74
Volkswagen Intl Fin 7 03	1000	94⅜	94¾	+⅜	7.92
World Bank 0 15	2000	20⅝	21⅛	+¼	7.77
World Bank 5⅞ 03	3000	88½	88¾		7.69
World Bank 8¾ 00	1250	110½	111	+⅜	6.39
Abbey Natl Treasury 8 03 £	1000	91⅞	92⅛	+⅛	9.43
Alliance Leics 11⅜ 97 £	100	105⅞	106¼		8.69
British Land 8⅞ 23 £	150	88⅛	88⅝	+¼	10.41
Denmark 6¾ 98 £	800	93⅝	94	+⅛	8.79
EIB 10 97 £	637	103¼	103⅝		8.30
[illegible]					

Remaining sections (Swiss Franc Straights, Yen Straights, Other Straights, Deutsche Mark Straights, Floating Rate Notes, Convertible Bonds): [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated.

Record banknote production behind better than expected 10% rise

De La Rue advances to £73m

By Paul Taylor

Record banknote production helped De La Rue, the security printer, payment and transaction systems group, report better than expected interim profits yesterday.

Pre-tax profits increased by 10 per cent to £72.8m in the six months to September 30, up from £66.1m a year earlier when profits were boosted by a £9.5m exceptional profit on the sale of the group's Brazilian operations.

In the wake of the announcement analysts upgraded their full-year profits forecasts and the shares closed up 31p at a new high of £10.34p.

The results were underpinned by a 20 per cent increase in operating profit to £52.2m on turnover from continuing operations up 21 per cent to £324m.

Pre-tax profits were also helped by higher net interest receipts of £6.9m (£5.7m) and a significant increase, from £7.3m to £13.7m, in the share of profits of De La Rue Giori, the group's Swiss-based banknote printing equipment associate.

Mr Jeremy Marshall, chief executive, said the results, "demonstrated De La Rue's strengths across all our sectors". He said banknote production was at a record for a half year with strong demand from a broad range of customers.

The security printing continuing operations contributed £31.2m (£24.9m) to operating profits on turnover of £130m (£89.9m), buoyed by an unusually high volume of "bonanza" banknote printing undertaken on behalf of countries which had been unable to meet demand from their own state-owned presses.

The group also generated sales of £25m for work completed on state printing works projects, although it said it was taking a conservative approach to recognising profits from this source.

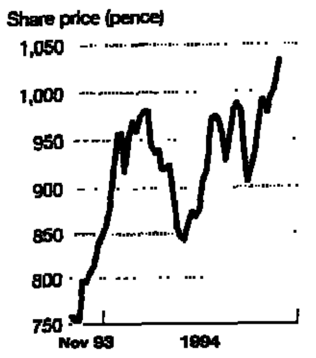
The transaction systems division, which made profits of £4.5m (£2.5m) on turnover of £41.3m (£29.7m), also had "a very encouraging first half".

Profits from the payment systems operations, which sell cash handling equipment, edged ahead to £16.5m (£16m) on turnover of £155m (£149m).

Earnings per share increased by 13 per cent to 28.1p (24.8p). Excluding non-recurring items, earnings advanced by 32 per cent. The interim dividend is raised by 17 per cent to 7p (6p).

De La Rue

Share price (pence)



Source: FT Graphite

● **COMMENT**

With the exception of the payments systems division, De La Rue's results were impressive – even though they benefited from a number of atypical factors. Second half growth is unlikely to match that achieved in the first six months, but full-year pre-tax profits of £150m now look possible, producing earnings of about 57.6p. Profits from the mature core businesses should be solid over the next few years, but the group's performance in the longer term looks less certain. Without a large acquisition it could be difficult to maintain the momentum. Such concerns have yet to be reflected in the shares which are trading on a prospective p/e of 18 and have outperformed the FT-SE-A All-Share index by 35 per cent this year.

Reasons why float had to be pulled

By Simon Davies

BrightReasons, the owner of Pizzaland, has become the latest new issues casualty.

The company announced yesterday that its share offer would be "delayed".

Its brokers had advised that the shares would have to be offered at a price that its management was not prepared to accept.

The decision follows the sudden postponement of the share offer for New Look, the women's wear chain, after fund managers had shown limited interest in the offer.

BrightReasons had planned to raise about £35m from investors in an offer that would have valued the group at between £60m and £80m. The money was to have paid down debt built up in expanding restaurant chains, which include Pastifico, Prima Pasta and Pizza Piazza.

Despite the recent stock market recovery, brokers UBS Securities advised that this valuation was not possible.

BrightReasons was adamant that it was in no hurry to float and that the issue would go ahead once market conditions were more favourable. The company's said its recent trading performance had been "extremely strong".

It has been a difficult period for new issues. This year has broken records for both the number of companies and the size of offerings. However, a number of flotations have been followed by disappointing trading statements and institutional interest has waned.

Property group London Capital Holdings was the first issue to be pulled, in May. It was followed by a number of others, including British Printing Company, Life Style Care, General Cable and Telewest, which has recently resuscitated its share offer.

BSkyB says piracy could undermine float confidence

By Raymond Snoddy

British Sky Broadcasting, the satellite television consortium, has admitted in a High Court affidavit that piracy could undermine confidence in its flotation unless rigorously tackled.

Last week BSkyB was granted a High Court injunction, under copyright legislation, against Mr Bill Leach and Mr Russell Craven, trading as BSB Electronics.

The small electronics company was alleged to have been using regional newspaper advertisements to sell a device it was claimed could switch on BSkyB smart cards whether the holder had paid their subscriptions or not.

Another blocker device was claimed to be able to prevent the satellite company deactivating the cards.

The largest proportion of BSkyB's revenues are earned by broadcasting channels, such as Sky Sports, which can only be viewed by subscribers who have a card to unlock the signal.

The BSkyB case was that unless the defendants were stopped, the satellite company, in which Pearson, owners of the Financial Times currently holds 17.5 per cent, would suffer "substantial and unquantifiable loss".

This was spelled out in the affadavit as:

● a loss, perhaps accelerating, of current and potential subscribers;

● the possible loss of agreements and intended agreements with independent broadcasters;

● possible loss of confidence in BSkyB's impending flotation. BSkyB's pathfinder prospectus, valuing the company at between £4bn and £4.6bn was published on Monday.

The legal document also says that BSkyB has come across a few examples of pirate "period 9" cards – the more sophisticated cards introduced in May to wipe out piracy.

The cards were knocked out by signals broadcast over the air.

Ms Sharon Southwell-Gray, BSkyB's deputy head of legal affairs, says in the document that some of the individuals and companies involved in piracy have sophisticated resources. "I believe it is only a matter of time before pirate period 9 cards become available," she conceded.

In its pathfinder document, BSkyB says pirate devices range from counterfeit cards to "blockers" designed to upgrade genuine cards.

The directors say they are not aware of counterfeit cards still functioning, and add that blockers were not in wide circulation.

Apart from over-the-air anti-piracy measures, BSkyB would continue to replace its cards periodically.

Acquisitions help lift Sedgwick to £78.7m

By Ralph Atkins
Insurance Correspondent

Sedgwick, the international insurance broker, yesterday announced increased pre-tax profits of £78.7m in the first nine months of 1994, buoyed by acquisitions and good growth in its international retail broking business.

Pre-tax profits for the first nine months of 1993 were restated at £66.1m. Earnings per share increased from 8.8p to 9.1p.

Total brokerage and fees rose to £563.3m in the first nine months, against £551.2m. Excluding the effect of acquisitions, an underlying increase of 1 per cent in brokerage and fees was matched by a underlying increase of 1 per cent in expenses.

Mr Sax Riley, chief executive, said underlying growth in retail brokerage and fees had been maintained at an annual rate of 5 per cent or more in North America, Europe and the Asia/Pacific regions.

However, overcapacity in the London insurance market and competition from overseas had curbed the performance of Sedgwick Payne, the group's specialist insurance operation. Brokerage and fees at Sedgwick Payne showed only a modest increase to £134.2m (£133.9m) in the first nine months.

Mr Riley said Sedgwick's attempts to broaden the range of consultancy services it can offer and reduce the proportion of commission-based income were on course.

Sedgwick Noble Lowndes, including the employee benefits consultancy the group acquired last year, reported underlying pre-tax profits of £14m in the first nine months.

The group's results were broadly in line with expectations and Sedgwick's shares closed unchanged at 147p.

Pre-tax profits in the UK increased to £37.8m (£30.1m). Continental Europe also saw an increase to £10.6m (£7.5m). There was a slight dip in US profits to £28.3m (£29.5m).

St James's Place 17% ahead at £16.5m

By Christopher Price

St James's Place Capital, the financial services group run by Lord Rothschild and Sir Mark Weinberg, turned in half-year pre-tax profits 17 per cent higher at £16.5m, against £14.1m.

However, net assets per share showed a decline from 86.3p at the year-end to 84.1p, although this was an 8 per cent improvement from the 77.5p of a year ago.

In volatile market conditions, profits from dealing in investments jumped from £500,000 to £10.6m, reflecting the group's management of its short-term investments. However, profits of £9.7m from the holding portfolio of investments, the group's longer-term play, were turned into losses of £2.2m as the market indices turned down.

Fund management income more than tripled to £3.2m (£1m).

In the life assurance business, Scottish Amicable has taken over the administration of J Rothschild International Assurance. The group said that it was "actively seeking further marketing arrangements with banks and other institutions" in a number of countries.

Plans to set up a new venture to buy and manage life assurance companies, announced in September, were being advanced. SJPC is putting up some £30m of the £100m capital fund for Life Assurance Holding Corporation, with a further £40m coming from New York Life and Scottish Amicable. The remainder is being sought from other institutions.

Mr Ron Bell, chief accountant, said that with the volatility and uncertainty surrounding the world's bond and equity markets, the company preferred to concentrate its investments on specific companies rather than exposure to markets in general.

Earnings per share fell 27 per cent to 4.3p (5.9p).

The interim dividend is maintained at 1.5p.

Y-TT head calls for joint Channel 5 bid

By Raymond Snoddy

Mr Ward Thomas, chairman of Yorkshire-Tyne Tees Television, yesterday appealed to the ITV companies to make a joint bid for the new Channel 5.

Although individual ITV companies are limited to a maximum stake of 20 per cent, there is apparently nothing in the rules to prevent them making a joint bid.

"I think the most sensible thing would be if a consortium of ITV companies combined to bid for Channel 5. The BBC has two channels. Why not ITV?" Mr Thomas asked.

The Yorkshire chairman also announced a return to profit for the company in the second half after serious problems last year with its advertising sales.

In the current 15-month period, pre-tax profits for the six months to September 30 were £4.7m, cancelling out a £4.6m loss in the first half and leaving profits for the year at £111,000 (£7.5m losses). Turnover amounted to £225m (£237m) generating operating profits of £59.9m (£35.8m) for the 12 months.

Mr Thomas, who has made it clear he would like to be part of a Channel 5 application, said Yorkshire's advertising revenue was starting to grow.

The Yorkshire chairman also said he had tried to persuade the government to privatise Channel 4.

"I am one of those trying to encourage the government to think about the privatisation of Channel 4," said Mr Thomas, who added that £1.5bn could be raised. This could mean £1bn for the government and the rest could be used to reduce the total bid money ITV must pay to the government. Privatisation, however, seems unlikely.

Yorkshire, in which Pearson, owner of the Financial Times, has a 14 per cent stake, said the drive to cut costs continued. It had cost of sales and operating expenses of £81.6m in the second half, down from £94.8m, while programme sales remained strong.

"We will produce for anybody. That is where our business can expand and why we have to be cost effective," Mr Thomas said.

Earnings per share for the six months amounted to 6.2p and for the 12 months to 0.1p (11.1p losses). At the end of the 15-month period to December 31 the directors will give "serious consideration" to proposing a dividend.

The shares rose 6p to 395p.

Rap to float with likely £17m tag

Two former BTR directors are bringing a rubber and plastics distributor to the market next month which is expected to be valued at about £17m.

Rap, which distributes industrial products such as hoses, gloves, gaskets and uniforms, is hoping to raise about £4.6m in an institutional placing. About £2.1m of the net proceeds will be used to redeem preference shares and the balance will provide working capital to fund expansion largely through acquisition.

Rap's chief executive is Mr David Emmett, former general manager and director of BTR Farington, and joint leader of Rap's management buy-out from Haden MacLellan Holdings in 1991. He is joined on the board by Mr Lionel Stammers, former joint head of BTR's European division, who is a non-executive director.

Since the buy-out, Rap has increased pre-tax profits from £496,000 in 1991 to £1.22m in 1993. Sales have risen in the same period from £14.4m to £19.3m. However, the sharp rise in profits and sales was helped in part by acquisitions in 1993.

In its pathfinder prospectus published yesterday, the group forecast pre-tax profits for 1994 of not less than £1.7m.

The company said sales had increased largely because of greater activity in its market sectors. Margins had improved through operating efficiencies.

Rap trades from 23 outlets, which are mainly close to industrial areas. Its businesses include distribution of industrial and safety products, supply and servicing of conveyor belts and import and wholesale of gloves.

Hydro gets £10.5m value from placing

By Peter Pearse

The placing shares in Hydro International, which is coming to market, have been priced at 80p, valuing the maker of control systems for storm water control and sewage separation at about £10.5m.

Some 4.63m shares are being placed by Allied Provincial Securities. Of these, 4m are new and the balance are being sold by Mr Tim Lamb and Mr Bob Smisson, founding directors and chief executive and deputy chairman respectively.

Mr Lamb and Mr Smisson are being paid dividends totalling £200,000, conditional on the listing. The board does not intend to declare a dividend for the year to December 31: subsequently a dividend policy will be introduced "broadly reflecting growth in the group's underlying profit".

Of the £2.75m raised in the placing, some £2.3m is to be used marketing Hydro's products, investing in information technology, constructing a further test facility, and recruiting additional staff, particularly in research and development.

Mrs Elizabeth Kennedy, a director in Allied Provincial's corporate finance department, said that Hydro was a development type company, though not a "blue sky" company, in that it has patented products bringing in revenue and profit. In 1993 it made £156,000 on £4.1m turnover and in the six months to June 30, profits were £154,000 on £2.4m turnover.

She said that the pricing therefore fell between what the company thought it was worth and what the institutions were prepared to pay. Ten "mainline" institutions have taken shares, including Scottish Amicable, Friends Provident and Legal & General.

Mrs Kennedy said $3.7m (£2.25m) orders from Columbus, Georgia, had acted as one of the triggers behind Hydro's decision to come to market.

Winding-up at Waterglade

A winding up order was issued on November 9 against Waterglade International Holdings, the property development group, its directors announced yesterday.

Liquidators will be appointed shortly to the subsidiaries.

Shares in Waterglade were suspended on October 10. On October 19 the directors reported that a rescue plan was impossible, given the group's financial situation.

Liabilities are £29m. The directors do not anticipate that any funds will be available for shareholders.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
BOC ......int	12.4	Feb 1	11.6	-✱	23.2
Break for Border......int	0.33	Dec 23	-	-	-
Brit Empire Secs......fin	0.71	Jan 4	0.68	0.96	0.93
Capitol ......int	1.2	Dec 14	-	-	-
Casket§ ......int	0.4†	Feb 1	0.4	-	1.1
Cedardata ......int	1.05	Jan 4	-	-	-
Charles Sidney ......fin	2.3	-	-	3.5	-
De La Rue ......int	7	Jan 27	6	-	20
Dickie (James) §......fin	2.5	Dec 21	2	3.5	2
European Colour ......int	0.575	Jan 9	0.35	-	1.15
Gt Portland Ests......int	2.9	Jan 5	2.7	-	8
Heath (CE) ......int	5†	Jan 5	5	-	16
Marshalls ......int	1.5	Apr 6	1.25	-	4.25
PowerGen ......int	5	Dec 20	3.95	-	12.85
St James's Place......int	1.5	Dec 29	1.5	-	3
Securit'd Endow ......fin	2	Jan 3	-	3.5	-
Sims Food ......int	2†	Jan 5	2	-	7.5
Symonds Eng ......int	0.25	Jan 6	nil	-	0.25
Wilshaw ......int	0.25†	Jan 31	0.2	-	0.8

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ✱Total of 24.8p proposed.

CONTRACTS & TENDERS

REPUBLIC OF PARAGUAY

MINISTRY OF PUBLIC WORKS AND COMMUNICATIONS

UNDERSECRETARIAT OF PUBLIC WORKS AND COMMUNICATIONS

DEPARTMENT OF ADJOINING ROADS

RURAL COLONY CONSOLIDATION PROJECT IN THE CORES CORONEL OVIEDO - MBUTUY AND CONCEPCION - PEDRO JUAN CABALLERO

LOAN AGREEMENTS NOs 694/OC-PR & 891/SF-PR

PREQUALIFICATION OF CONTRACTORS CALL

The Ministry of Public Works of the Republic of Paraguay invites Firms and Corporations of countries members of Interamerican Bank of Development (BID), specialised in road works, to present prequalification proposal relative to contracting Firms and Corporations for the carrying-out of works of Reconstruction and Improvement of approximately 328 Km. of Rural Roads included in the mentioned project, corresponding to the Groups 1, 2, 4 and 5 of the Coronel Oviedo - Mbutuy Core, and groups 6 and 8 of the Concepcion - Pedro Juan Caballero Core, to be partially financed by the Interamerican Bank of Development through the Loan Agreements Nos. 694/OC-PR and 891/SF-PR. Therefore, the financing of the Works shall be subject to such Agreements requirements.

The works consist, in short, in the carrying out of:

- Embankments
- Coating of road with rubble
- Wood bridges
- Small bridges of tubes of H° A°
- Vertical signing
- Grass filling
- Coating of ditches and energy dissipaters

In order to prequalify, the Firm or Corporation shall obtain a minimum score of 75 of the 100 points possible. The detail of the qualification system is attached in the Bases and Specifications.

Bids for the mentioned 328 Km are expected to be called during the first semester of 1995, planning the beginning of the works during the second semester of the same year with an estimated carrying out time limit of 20 months.

The qualification documents may be obtained from the Department of Adjoining Roads Administrative and Accounting Unit, in Oliva and Alberdi, MOPC building, 2nd floor, Asunción Paraguay, previous formal applications and pay of one hundred thousand guaranies that shall be deposited in Banco Central del Paraguay starting from November 17 of the current year.

Applications will be received in the only Entrance Table, Ground Floor, of the Ministry of Public Works, until 8.00 am of January 6, 1995, in the mentioned address.

REPUBLIC OF PARAGUAY

MINISTRY OF PUBLIC WORKS AND COMMUNICATIONS

UNDERSECRETARIAT OF PUBLIC WORKS AND COMMUNICATIONS

DEPARTMENT OF ADJOINING ROADS

NATIONAL PROGRAM OF RURAL ROADS, FIRST PHASE

LOAN AGREEMENTS NOs 744/OC-PR AND 745/OC-PR

INTERAMERICAN BANK OF DEVELOPMENT (BID)

PREQUALIFICATION OF CONTRACTORS CALL

The Ministry of Public Works of the Republic of Paraguay invites Firms and Corporations of countries members of Interamerican Bank of Development (BID), specialised in road works, to present prequalification proposal relative to contracting Firms and Corporations for the carrying-out of works of Improvement and Reconstruction of approximately 670 Km. of Rural Roads included in the mentioned program, corresponding to the Subprojects Salto - Corpus, San Pedro - General Aquino, Villarrica - San José and Itapúa, to be partially financed by the Interamerican Bank of Development through the Loan Agreements Nos. 744/OC-PR and 745/OC-PR. Therefore, the financing of the Works shall be subject to such Agreements requirements.

The works consist, in short, in the carrying out of:

- Embankments
- Coating of road with rubble
- Wood bridges
- Small bridges of tubes of H° A°
- Vertical signing
- Grass filling
- Coating of ditches and energy dissipaters

In order to prequalify, the Firm or Corporation shall obtain a minimum score of 75 of the 100 points possible. The detail of the qualification system is attached in the Bases and Specifications.

Bids for the mentioned Subprojects are expected to be called during the first semester of 1995, planning the beginning of the works during the second semester of 1995 with an estimated carrying out time limit of 24 months.

The qualification documents may be obtained from the Department of Adjoining Roads Administrative and Accounting Unit, in Oliva and Alberdi, MOPC building, 2nd floor, Asunción Paraguay, previous formal applications and pay of one hundred thousand guaranies that shall be deposited in Banco Central del Paraguay in the Account No. 490 "Otros Recursos", starting from November 17 of the current year.

Applications will be received in the only Entrance Table, Ground Floor, of the Ministry of Public Works, until 8.00 am of January 10, 1995, in the mentioned address.

COMPANY NEWS: UK

Decline to £253m despite strong growth in gases division

Restructuring charge hits BOC

By Daniel Green

A sharp rise in gas prices and volumes in the final quarter helped BOC's turnover increase by 8 per cent in the year to September 30. However, an £85m restructuring charge and a £16.6m loss on disposals left pre-tax profits down at £253m, against £338m.

Mr Pat Dyer, chief executive, said the economic climate was right for more gas price increases in the US. US gases plants were running at close to full capacity and some competitors had been rationing products.

Group turnover advanced to £3.48bn (£3.24bn) generating operating profits of £435m (£421m). The gases division accounts for 71 per cent of sales and achieved a 9 per cent increase in operating profits to £332m, with a fourth quarter gain of 20 per cent to £88.2m.

Increasing sales volumes had raised profit margins. Most of the price of each extra bottle of gas sold goes straight to the bottom line because capital costs changes little with output.

Mr Dyer said that average prices had fallen slightly because customers were on contracts that offered discounts for higher volumes.

He added, however, that the recent surge in US prices indicated that there could be price rises elsewhere in 1995.

BOC's second biggest division, healthcare, continued to suffer from the expiry this year of patent protection on the anaesthetic gas Forane. Its market share in the US had fallen from "almost 100 per cent" to less than 35 per cent and the price had fallen by more than one-third.

Healthcare's turnover fell 2 per cent to £568m (£577m) and operating profits dropped 37 per cent to £54.6m (£86.2m).

Mr Dyer warned that further competitors were likely to challenge Forane within months. Forane's replacement, Suprane, continued to grow and had 35 per cent of the US market.

The healthcare division's performance in Europe was hurt by a product recall of Suprane vaporisers, costing £5m by the year end.

The company's third division, vacuum and distribution, registered strong growth thanks to the buoyancy of one of its main customers, the semiconductor industry.

Turnover grew by 20 per cent to £435m and operating profit increased 55 per cent to £51m.

The exceptional charge, announced in January, left earnings per share at 23.82p (42.97p). Excluding the charge, earnings were 43.87p.

BOC announced 1995 dividends of 12.4p for each half, to make a total of 24.8p – a 7 per cent increase.

BOC shares rose 10p to close at 720p.

See Lex

CE Heath hit by direct line costs

By Christopher Price

The cost of entering the direct line insurance business and accounting vagaries at an Australian associate depressed profits at CE Heath for the six months to the end of September.

The pre-tax figure fell from £14.9m – inflated by a £3.25m exceptional item – to £6.37m. Turnover on continuing operations was little changed at £81.5m (£81.5m).

Heath's Premium Search telephone broking business incurred losses of £1.6m during its first four months of operation, with Mr Peter Presland, chief executive, forecasting that the full-year deficit would be about £4m. He anticipated that the business, which is likely to employ up to 400 people, would move into profit in 1996.

Mr Presland denied that the company had left it too late to enter the direct line market. "There is a big market out there for this kind of service and it is going to get bigger as more and more people look for their insurance needs away from the high street."

CE Heath International Holdings, the group's Australian associate in which it holds a 23 per cent stake, saw its profit contribution drop from £6m to £1.2m. The company blamed the fall on the halving of its stake, and Australian accounting rules which make the company reflect all investment gains and losses in its profit and loss account.

Losses from the New York underwriting business widened from £450,000 to nearly £1m, although the company added that the subsidiary's book of agricultural business had been sold and the losses would not recur.

Profits from the computing services division rose 26 per cent to £2.7m (£2.14m).

Earnings per share dropped 46 per cent to 5.9p (10.9p). The interim dividend is maintained at 5p. The shares rose 13p to 232p.

● **COMMENT**

Heath's chunky dividend, currently yielding nearly 9 per cent, should limit any downside for the shares. However, in the short-term it is difficult to see where any sustained earnings growth is likely to come from. With its broking operations under pressure, underwriting contributions declining and the direct line service in its formative stages, it is only the fairly limited contribution from computer services which can be counted on. Worth holding for the yield, and on the off-chance a predator might swing into view.

Sims Food bounces to £1.21m

By Richard Wolffe

Shares in Sims Food Group climbed 6p to 87p yesterday as the meat processor and supplier turned losses of £1.26m to pre-tax profits of £1.21m in the six months to September 30.

Strong demand in the fast food sector helped to lift sales by 4 per cent on continuing activities, although overall turnover fell 10 per cent to £134m (£149m).

Mr John Stone, chairman, reported that "we are enjoying improved trading conditions in all our divisions as input prices have eased and consumption has increased".

The Milton Keynes-based company reported retail sales up 9 per cent to £88.8m, following a 40 per cent reduction in slaughtering capacity last year.

Volumes at the core wholesale hamburger business rose 10 per cent to lift manufacturing sales 9 per cent to £16.4m.

The catering division reported sales down 14 per cent at £23.7m, as meat costs rose higher than expected.

Earnings per share were of 2.1p, compared to losses of 3p. The interim dividend is maintained at 2p.

UK housebuilding rise behind Marshalls growth

By Andrew Taylor, Construction Correspondent

Pre-tax profits of Marshalls, the West Yorkshire-based building materials group, jumped by 40 per cent from £11.3m to £15.9m in the six months to September 30, assisted by a sharp rise in UK housebuilding.

Increased investment in commercial and industrial construction as the UK economy improved also helped first-half sales, said Mr Andrew Marshall, chairman.

About a quarter of group turnover, which rose by 22 per cent to £124.8m (£102.2m), is generated by the UK and US housing market, including sales for repair and maintenance.

UK housebuilders, which started work on 12.5 per cent more homes during the first nine months of this year compared with the corresponding period in 1993, have been winning market share in a generally sluggish UK housing market.

The increased activity has enabled building materials producers to raise prices for some products, particularly bricks, while increased sales volume has assisted margins.

Marshalls' share price rose 6p to 146p yesterday on the profits announcement, which followed a 64 per cent increase at the pre-tax level in the previous 12 months.

The interim dividend is increased from 1.25p to 1.5p. Earnings per share, fully diluted, rose from 4.72p to 6.5p.

UK operating profits from stone and concrete products, mainly for paving and flooring, rose by 30 per cent to £12.7m (£9.78m). The division was helped by a 20 per cent rise in turnover, of which price increases accounted for only a small part.

US losses for stone and concrete declined from £240,000 to £58,000 helped by "useful sales" from the Florida-based Paver Systems.

UK clay products profits more than doubled from £1.5m to £3.42m helped by a sharp rise in brick prices and higher sales.

Net debt at the end of September stood at £13.5m, equivalent to gearing of 10.4 per cent.

● **COMMENT**

Marshalls' share price had outperformed the sector by 30 per cent prior to yesterday's results. It is a well run company, but will find it very hard to maintain recent growth rates. UK margins are already at the top end, although they could rise a little more, but further significant improvement may depend on increased sales volume – or perhaps an acquisition or two, given the strength of the balance sheet. Pre-tax profits of £30m would put the shares on a prospective p/e of more than 11.5, which is rich enough for the time being.

SeaPerfect intermediaries offer 44.75% subscribed

The intermediaries offer within SeaPerfect's flotation was 44.75 per cent subscribed at the 3pm close on November 14. Valid applications in respect of 2.33m shares were received from nine intermediaries for the 5.21m available; therefore applications have been met in full.

At 120p per share, the world's largest controlled producer of shellfish was valued at £59m in the placing and intermediaries offer.

Some 15.6m shares, or 75 per cent, were placed firm by Williams de Broë.

US automotive recovery helps Wilshaw to £2.24m

By Richard Wolffe

Recovery in the US automotive industry helped lift interim profits at Wilshaw, the specialist metals and distribution group, by 65 per cent.

The company announced pre-tax profits of £2.24m (£1.36m) for the six months to September 30, on turnover up by 26 per cent to £22.6m (£18m).

Mr Guy Askham, chairman, said increased demand for magnets in cars helped the specialist metals division to more than double operating profit to £989,000 on turnover of £7.73m.

The company is spending £500,000 building a new facility to manufacture bonded magnets for computers, electronics and small electric motors.

The distribution division, which sells tractor parts, reported operating profits up 40 per cent to £1.61m on turnover of £12.2m.

In April the company acquired Agripieces, the French distributor, for £1.75m in shares. This contributed £290,000 operating profit.

Earnings per share rose to 1.62p (1.05p).

The interim dividend is raised from 0.2p to 0.25p.

COMPANY NEWS: UK

Property group sees rental growth although tenant demand remains sporadic

Acquisitions bolster Great Portland

By Simon London
Property Correspondent

Acquisitions following its 1993 rights issue helped Great Portland Estates, the UK's sixth largest property company, announce interim pre-tax profits ahead from £16m to £21.4m.

Since its preliminary announcement in June, Great Portland has bought four freehold office investments for £26m, a portfolio of seven properties in Cardiff and Plymouth for £19m, and a pre-let warehouse development in Bury, Lancashire for £9m.

These are expected to increase net rental income by £4.25m during a full year.

However, Mr Richard Peskin, chairman, said that demand for space from tenants was still patchy. "Tenant demand is sporadic. Although, with development activity still low across the industry, we are optimistic that rental growth is on the horizon," he commented.

Net rental income for the six months to September 30 rose from £40.1m to £44.8m. Only 3 per cent of the portfolio remains unoccupied, reducing rental income by about £2.75m.

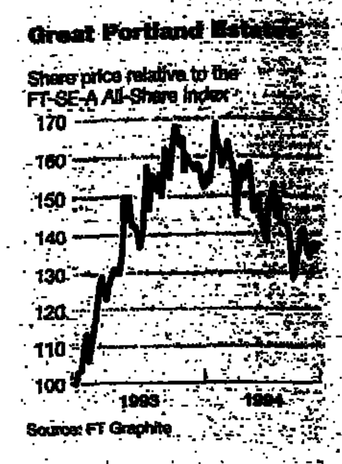
The company has continued to dispose of unlet space. Its vacant development at 39-41 Charing Cross Road was sold for more than £5m, 20 per cent higher than book value.

The rights issue raised £95m. At the half-year stage, gearing stood at 62 per cent, although the property portfolio is only revalued at the year end. Mr Peskin said he would be comfortable with gearing of up to 90 per cent if acquisition opportunities arose.

The company's main development project is 160 Great Portland Street, London, where it is building 80,000 sq ft of office space behind an existing facade. The building should be ready for occupation next autumn.

After refurbishment costs and administration expenses, operating profits were £29.8m (£35m). Net interest charges amounted to £19.2m (£18.6m) and earnings per share were 5p (4.3p).

The interim dividend is increased to 2.9p (2.7p); the company intends to pay a final dividend of 5.85p, making a total for the year of 8.75p, against 8p.



Stagecoach pays £8m for Scottish bus holding

Stagecoach, the UK's largest bus group, yesterday announced its eighth acquisition of 1994, with the £8.3m purchase of a 20 per cent stake in SBH, the holding company for Strathclyde Buses, Scotland's leading bus operator, writes Simon Davies.

Stagecoach will pay £1.5m cash, with the remainder in new shares. In addition, it is to sell SBH 18 new buses, which Stagecoach had previously considered using on new routes in Glasgow in direct competition with its new partner.

Mr Derek Scott, finance director, said: "We have made no secret of the fact that we need to be in the major urban areas of Britain."

He said the SBH tie-up could open the way for a larger stake at a later stage, but that SBH might alternatively consider a flotation, providing a potentially profitable exit for Stagecoach.

SBH was formed from a management buy-out from Strathclyde Council in 1993, and it recently expanded through the £11.3m purchase of Kelvin Central Buses, a large competitor in Glasgow, creating a group with £86m annual turnover.

The group owns 1,330 vehicles and employs 3,700 staff. SBH said it approached Stagecoach, as it was looking to raise capital from the sale of a minority stake, so that it could compete with the larger listed groups while retaining independence.

However, the Office of Fair Trading said it would look into the deal, given Stagecoach's position as Scotland's third largest bus operator. There is an ongoing OFT inquiry into the SBH takeover of Kelvin.

Fleets of cash boxes on wheels

Simon Davies analyses the bus companies' race for acquisitions

The UK's biggest bus groups are involved in a race against time.

Declining passenger numbers mean that – in the absence of initiatives to encourage urban public transport – acquisitions are the easiest route to meaningful profits growth.

The fragmentation of the old government-owned National Bus Company into 90 new companies in 1987 has been rapidly reversed by the private sector. Stagecoach yesterday made its 10th acquisition in a year, at a total cost of £120m.

Many analysts believe that by the turn of the century there will be four or five large operators, assuming they avoid political backlash over the creation of private monopolies.

The source of pressure for acquisitions was underlined by the latest Department of Transport statistics, issued last week. These showed a decline in passenger numbers every year in the past decade, in spite of efforts to improve efficiency and service since privatisation.

The most up to date figures, charting the year to April 1994, show a fall of 105m in the number of passenger journeys to a total of 4.37bn. This is 23 per cent down on the 5.65bn journeys undertaken in 1984.

Given this unhelpful macroeconomic picture, operators have had to focus on controlling costs and buying less efficient operators. The four listed bus companies have responded with enthusiasm, making 20 substantial acquisitions in the past year.

This has proved fortunate for the government, as it coincided with the privatisation of the 10 London bus operators. Nine of these have been sold, with four going to listed companies and the remainder to management buy-outs.

Mr Martin Higginson, economic adviser to the Confederation of Passenger Transport, says: "The listed companies are making acquisitions because profits from the core businesses cannot expand rapidly." However, given the increased muscle of the listed companies, bargains are hard to come by. As Mr Higginson says, "those who made a move in the earliest days of privatisation got good bargains. Now, they are having to pay fair market value."

The operators argue that there are substantial efficiencies to be stamped on an industry with decades of public sector fat, and that takeovers are the best means of advancing the efficiency drive.

Buses are cash boxes on wheels, with predictable revenue streams and a cost base which offers big economies of scale.

By renewing the fleets, new management has been able to reap the benefits of buying in bulk, and of reduced maintenance costs on vehicles.

The extent of this trend was demonstrated by bus manufacturer Trinity Holdings, which in the first half of the year received £33m of orders from Stagecoach and Badgerline, the two largest listed bus companies. Badgerline plans to buy 450 buses a year in 1995 and 1996 to replace ageing buses that are in turn sold on to developing countries at or above book value.

Management structures have been simplified and employment agreements renegotiated. The net result has been a leap in profits, with all the listed companies expected to announce profits growth above 50 per cent this year.

However, acquisitions have provided the main thrust for increases and Mr Brian Souter, chairman of Stagecoach, expects that "there will be a flurry of acquisitions which will go a bit further and then fizzle out".

Recent management buyouts of bus groups will probably become targets for acquisition at a later stage, but the prices are rising.

Mr Souter says there is potential organic growth left in bus companies through management efforts to improve fleet usage, routes and the quality of service.

He also suggests that UK companies should look beyond the Channel. "In the longer-term, the overseas markets are where the privatisation bargains are going to be."

Growing competition is making life harder for the bus companies and politics could create further difficulties.

The Office of Fair Trading has already launched a number of investigations into potential monopolies within the bus system. Stagecoach, the largest UK operator with close to 12 per cent of the market, has borne the brunt of these, with 20 investigations by the OFT since 1989 and three adverse rulings.

The recent scuffle in Darlington – where the council-owned operator went out of business, complaining that Stagecoach had "swamped" the city with free buses – suggests that political concerns over competition will remain.

The bus companies counter that competition comes from the car and that this will ultimately dictate ticket prices, rather than the existence of other operators.

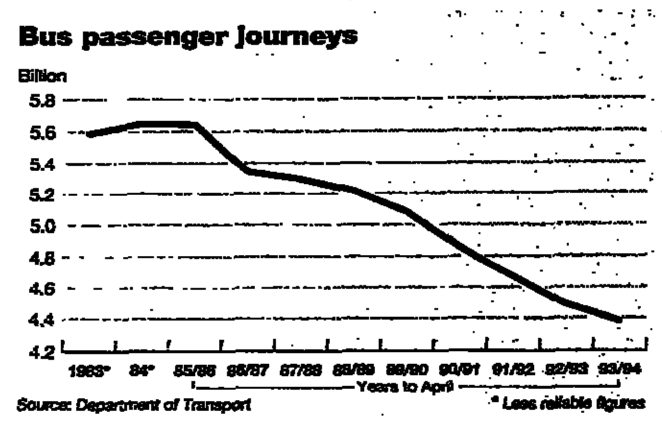
At the same time, they are hoping that the government will help tilt the playing field against the motorist.

The recent Royal Commission on Environmental Pollution favoured a push to persuade motorists to convert to public transport. The government has also spoken in favour of such a strategy, although little has yet been done.

But the great hope of the bus operators is that growing congestion in the cities will force action. There are already signs of local government initiatives to improve bus services, such as bus lanes. But it will take much more to reverse the trend of declining passenger numbers.

Mr Ballinger, managing director of Go-Ahead, said: "Ultimately we see our future in the urban areas, where we see changes in policy inevitably arising."

However, management will soon start to face the increasing challenge of eking out growth from static revenues.



James Dickie doubles as margins improve

Acquisitions and reorganisation in the previous period underpinned a strong full-year performance at James Dickie, the engineering components manufacturer.

On turnover ahead 31 per cent to £21.7m, pre-tax profits for the 12 months to August 31 doubled from £678,000 to £1.35m.

The shares rose 11p to 166p.

Mr Hugh Jack, chairman, said the company also benefited from increased volumes at its main customers. Margins improved despite continuing difficulties in passing on costs.

The order book was well ahead on a year-on-year basis: "Management is investigating ways of overcoming capacity constraints which we may come up against later in the year if our order book continues to grow further," he said.

A proposed final dividend of 2.5p brings the total to 3.5p (2p), covered 4.4 times by earnings of 15.3p (8.4p) per share.

The company intends to move from the USM to the Official List.

Export growth lifts European Colour by 64%

European Colour continued its pattern of more than doubling pre-tax profits with a 64 per cent rise from £521,000 to £856,000 for the six months to end September, making the fifth successive half year of organically generated growth.

Turnover was up from £7.75m to £8.51m.

Mr Henry Finchett, chairman of the chemical colour manufacturer, said much of the growth had come from "concentrating upon Europe". This had "generated 29 per cent sales growth" and taken exports to more than a third of turnover.

Earnings per share came out ahead at 1.9p (1.16p) and the interim dividend is increased to 0.575p (0.35p).

Dublin expansion lifts Break for the Border

August's £5m acquisition of Marino helped lift pre-tax profits at Break for the Border Group, the restaurateur and nightclub operator, from £140,000 to £259,000 in the six months to September 30.

Turnover expanded from £1.95m to £3.46m.

Mr Robert Gunlack, chairman, said that in their first two months within the group, Marino's Dublin outlets had traded successfully, contributing operating profits of £254,000 and "fully justifying the directors' expectations at the time of acquisition".

The integration of the Dublin operations, including the introduction of an improved system of financial and operating controls, was proceeding smoothly and yielding immediate benefits, he added.

Sales in Dublin in October and the first two weeks of November were in line with sales in August and September, Mr Gunlack said.

Sales for the group's London outlets in October continued to be affected by the partial closure of the Argyll Street café.

However, the refurbishment was now complete and party bookings were currently significantly higher than last year.

Fully-diluted earnings per share advanced from 1.04p to 1.49p and the group is paying a first interim dividend of 0.33p.

Relaunch paying off at upbeat First Choice

By Gary Evans

Shares in First Choice Holidays, the former Owners Abroad group which relaunched itself in August in an attempt to regain market share, rose 2p to 121p yesterday following an upbeat statement from the company.

In an announcement issued prior to an analysts' visit to its key operational centres at Gatwick and Manchester today, Mr Francis Baron, chief executive, said: "We are very encouraged with the performance of the group since the launch of our new brand structure."

First Choice estimated that its market share in the period since the relaunch had been more than 15 per cent. "We are comfortably on track to meeting our stated objective of a minimum 1 per cent increase in market share for the year," Mr Baron commented.

The group's share of the summer market had fallen from 16 per cent in 1992 to an estimated 12 per cent this year prior to the relaunch.

Mr Baron said yesterday that summer 1995 bookings had remained strong in a weak market. The group had now sold 275,000 holidays for next summer, representing a 30 per cent increase over last year, while market share was currently exceeding target.

Mr Baron said that after a slow start, winter bookings for the UK market had picked up well and the group had sold 245,000 holidays – a 4 per cent increase. This programme, launched in May, is still under the old brand structure.

The summer 1994 programme ended in line with expectations, with total passengers 1 per cent lower at 1.6m.

TT loses interest in Scantronic

TT Group, the conglomerate, has ruled itself out of the bidding for Scantronic Holdings, the security components company.

The group, which holds 3 per cent of Scantronic shares, said it had "no intention in current circumstances of making an offer for Scantronic and intends, when appropriate, to dispose of its entire shareholdings".

Last month Menvier-Swain announced its interest in making a bid for Scantronic.

COMPANY NEWS: UK

GA shares drop 19p as net assets fall sharply

By Ralph Atkins
Insurance Correspondent

Shares in General Accident, the Scotland-based composite insurer, fell 19p yesterday after results showing the group's net asset value had been hit by poor performing world financial markets and a weak dollar.

The drop in the share price to 565p, against a rising market, came despite a jump in pre-tax profits in the first nine months of 1994 to £321.6m (£206.5m).

Net assets per ordinary share fell to 410p, against 545p at the end of last year. GA blamed conditions on world equity markets and the weak dollar, but Mr John Chester, insurance analyst at SG Warburg, said the figures also reflected the high proportion of long term US bonds in its portfolio.

Earnings were boosted by a strong performance in the UK, particularly on property insurance. Total premium income increased to £3.8bn (£3.7bn).

GA's underwriting profits confirmed the buoyancy of the UK insurance market, though Mr Nelson Robertson, group chief executive, acknowledged that the favourable conditions were unlikely to continue.

He said GA was prepared, if necessary, to see segments of its businesses contract if competition was particularly fierce, in order to preserve its profitability.

For example, the group has decided not to promote heavily sales of private motor insurance via GA Direct, its direct selling operation which continues to serve about a fifth of GA's motor policy holders, because competitors are cutting prices to unprofitable levels.

However, GA has succeeded in expand its household insurance business. Premium income on personal household insurance policies jumped 25 per cent to £267.4m in the first nine months, while personal motor premium income fell 5 per cent to £182.7m.

Similarly premium income from commercial property policies increased by more than 20 per cent, but commercial motor premium income shrank by 8 per cent.

GA also bucked the trend in the UK life industry, increasing new annual premiums by 3 per cent to £40.9m and single premiums by 46 per cent to £375.7m.

Mr Robertson said GA expected its Pacific and east Asian operations to provide growth opportunities and the group is looking for possible small or medium size acquisitions in the region.

However, GA's overseas underwriting results remained lacklustre. US and Canada reported underwriting deficits of £94.4m (£107.2m) and £54.4m (£26.1m) respectively in the first nine months. Mr Robertson blamed the figures on the impact of catastrophe losses.

Charles Sidney 17% ahead to £2.87m

By Peter Pearse

Charles Sidney, the Mercedes-Benz truck and car dealer, outstripped the German group's performance across the UK as it lifted pre-tax profits 17 per cent from £2.46m to £2.87m in the year to August 31.

Mr Raymond Edwards, chairman, said the group was looking for acquisition possibilities involving other manufacturers.

He said the year had been spent making sure that shareholder value, excluding newly incurred central costs, rose satisfactorily. Further, Mr Edwards wanted the South Yorkshire business bought from the receiver and Aberdeen and Dundee Motor Group to be integrated.

That done, he said discussions had been taking place with a view to making relationships with other manufacturers of trucks and cars, both specialist and volume. He was wary of spending too much and would avoid companies which used debt for trading.

Turnover grew to £72.2m (£55.8m) with Aberdeen and Dundee contributing £6.16m to sales and £235,000 to operating profits of £2.84m (£2.44m). The group said that after adding back £450,000 of central costs, underlying profits from trading rose 38 per cent to £3.3m (£2.4m).

Profits from trucks advanced 24 per cent to £2.17m on turnover of £43m (£35.1m) and cars contributed 61 per cent more at £1.11m on turnover of £29.2m (£20.7m).

Mr John Ross, managing director, said that cars had risen so sharply largely because of the impact of the C Class, the replacement for the 190.

As average profit per unit fell about 5 per cent across the group, Mr Ross said the high-margin after-sales and parts operations had become more important.

Earnings increased to 8.3p (7.9p) per share and a maiden final dividend of 2.3p makes a total of 3.5p.

Generator looks overseas to honour commitment to regulator

PowerGen plans joint ventures

By Michael Smith

PowerGen is considering joint ventures with other European companies as a means of honouring a commitment to try to dispose of 2,000MW of plant.

Mr Ed Wallis, chief executive, said putting some generation plants into a European grouping was one of a series of options under consideration as a means of meeting the commitment to the electricity regulator.

Mr Wallis was speaking as the generator reported interim pre-tax profits of £118m (£108m) on turnover of £1.14bn (£1.27bn) for the half year to October 2. Earnings per share were 10.8p (9.71p) and the interim dividend is 5p (3.95p).

Mr Wallis said that PowerGen had examined the possibilities of selling plant to UK companies and was now looking at options involving overseas concerns, including asset swaps and forming joint ventures in which PowerGen would have a minority stake.

He said that a demerger, whereby a company could be split off from PowerGen with 2,000MW of plant, looked unlikely. "A company of that size would be not be big enough or viable enough on its own," he said.

"The overseas option now looks the best for us, although we have not ruled out a UK buyer," he said.

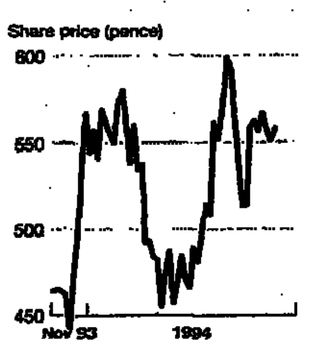
PowerGen also announced the confirmation of its second significant overseas project. It is to be lead project developer of a 900MW power plant at Tapada in Portugal. Mr Wallis said the company's stake would be more than the 22 per cent it has in its German generation project at Schkopau.

The total cost of the Portuguese project would be about £300m plus interest charges during its construction, with about 80 per cent financed from debt and 20 per cent by equity.

The company is also looking at projects in India, China, Malaysia and New Zealand.

PowerGen

Share price (pence)



Source: FT Graphite

Among developments in the UK, Mr John Rennocks, finance director, said coal stocks were down to 9.2m at the end of the period from 13m in March. He expected them to be 5m by the year end and 3m by March 1996.

The total number of employees fell by 200 to 4,185 during the six months, but Mr Wallis said the main push on staff numbers had finished.

● **COMMENT**

Other companies faced with falling market share and the imminent sale of a 40 per cent shareholding would probably be feeling uncomfortable. Not so PowerGen. Moving from its position as the second to the third largest generator in England and Wales has its compensations as market share is now below 25 per cent. That decreases the likelihood of a MMC referral should the company be unable to reach terms for selling off 2,000MW by the end of next year. Profit growth may have slowed but, with dividend cover so high, there is nothing to stop PowerGen increasing dividends by 16 to 20 per cent in the next three years at least, especially if overseas expansion goes to plan. The shares are trading on a yield of 3.4 per cent, assuming a full year dividend of 15p – up 18.6 per cent. That is a high rating in a highly rated sector but the fundamentals look strong.

British Biotech cancer drug enters last stage of trials

By Daniel Green

British Biotech, the UK's biggest biotechnology company, has begun the last stage of clinical trials on batimastat, its most important drug.

If the trials are successful, the anti-cancer drug will be submitted for regulatory approval in Europe "by the end of the first quarter of 1996". Approval could follow later that year.

Batimastat's success in earlier trials this year triggered a sharp rise in the share price. It had risen from 360p at the start of August to 586p yesterday.

The drug blocks the action of enzymes which allow cancers to grow by destroying the connective tissue between healthy cells.

This method of treatment differs from conventional drugs, which kill some healthy cells as well as cancerous ones.

The last stage of testing, Phase III, is the most difficult for any potential drug. It involves large numbers of patients – 300 for batimastat – who will be treated in a "double blind" trial where neither doctor nor patient knows whether they have received the drug or a placebo. Batimastat is being tried on patients suffering from abdominal cancers such as ovarian cancer.

Phase I trials are on healthy volunteers to look for side effects, and Phase II are on small groups of patients to find the best doses.

Several US biotechnology drugs have failed this year at Phase III.

British Biotech has also started Phase I trials on the follow-up to batimastat, BB-2516. It is an improvement over batimastat in that it can be taken orally rather than by injection.

Casket dips to £1m as demand falls

Casket, the bicycle and clothing manufacturer, saw a 52 per cent drop in pre-tax profits for the six months to end-September, from £2.13m to £1.03m on turnover up from £51.8m to £60m.

The profits fall was blamed on lower than anticipated demand for UK-produced bicycles and a £607,000 operating loss in the Heidemann Fahrrad German bicycle manufacturing operation, acquired last November.

The pre-tax figure was also hit by increased interest charges of £1m (£730,000), partly attributable to Heidemann's additional working capital requirements.

The reorganised clothing side more than doubled operating profits to £972,000 (£365,000).

Earnings per share fell to 0.68p (1.89p), but the interim is maintained at 0.4p.

New contracts and sales expansion lifts Ushers

By Richard Wolffe

Ushers, the Wiltshire-based brewer, yesterday published its pathfinder prospectus and reported a 35 per cent rise in pre-tax profits in the year to October 31.

The pre-tax line rose to £10.4m (£7.76m) on turnover up 12 per cent to £54.7m (£48.8m), as the company attracted new brewing contracts and increased sales of Ushers beers through its estate of 466 pubs.

The company, bought from Courage by a team of former Grand Metropolitan managers for £71m in 1991, is expected to have a market value of about £100m from the placing and open offer.

Mr Roger North, chief executive, said: "Our work since the buy-in has improved volumes and profits. We have new customers for our contract brewing business and we are making good progress in upgrading the quality of the tied estate."

Operating profit at the brewing and wholesale division rose 20 per cent to £7.72m (£6.42m), while the estate division reported operating profit up 8 per cent to £7.54m (£6.96m).

Ushers' current brewing contract with Courage will fall from 210,000 barrels this year to 50,000 in 1997.

The brewer hopes to replace the Courage volume with new contracts, which are expected to rise from 8,000 to 40,000 barrels in the current year.

It also hopes to lift sales of Usher brands to its tied estate, where margins are five times higher than the Courage contract. Volumes sold through the estate increased 10 per cent since the company established its own distribution and telesales systems in April.

Cash raised by the flotation will be used to clear the brewer's existing debt of £35m, on which interest rates have been fixed within a band.

Interest costs in the year to October 31 stood at £4.82m (£5.62m).

It will also free the brewer to double its estate of tied pubs, which offer a 21 per cent return on capital.

The main shareholders are Schroder Ventures and Swiss Bank Corporation. The directors do not intend to sell their shares, and are likely to own about 8 per cent of the equity after flotation.

The share price is expected to be announced on December 1, with dealings beginning on December 15.

The flotation is sponsored by NatWest Markets and the broker is NatWest Wood Mackenzie.

Credit Lyonnais offshoot withdraws from UK banking

By Nicholas Denton

The retrenchment of Credit Lyonnais, the lossmaking French bank, has led to one of its subsidiaries withdrawing from the UK.

Credit Lyonnais Bank Nederland, a Rotterdam-based unit, has agreed to sell its two branches in London and Manchester and about £100m of assets, more than half of the UK loan book.

The purchaser is Singer & Friedlander, the UK merchant bank, which is seeking to develop its operations in Manchester and in trade finance. "It is a nice extension to what we are doing and should produce a modest improvement in our profitability," Singer & Friedlander said.

Offices in the UK were only peripherally involved in CLBN's most spectacular loss, on a $888m (£541m) loan to Mr Giancarlo Parretti to buy the MGM film studio.

CLBN said most of its loans were performing and its performance bettered that of the UK clearing banks. Singer has nevertheless refused to take on a significant portion of CLBN's UK portfolio.

Credit Lyonnais itself recently experienced a setback in the UK when Health Care International, operator of a luxury hospital in Glasgow, went into receivership after borrowing £20m from it.

CLBN's contraction mirrors that of its parent, which recently announced the withdrawal from UK retail banking and the closure of half of its corporate banking branches.

Credit Lyonnais has one of the largest pan-European branch networks and the new management has indicated no wholesale withdrawal. However, reviews have been ordered into operations in Belgium, Spain and Italy.

Piper European net assets slip

Piper European Smaller Companies Trust, which aims to achieve capital growth through a portfolio of companies, excluding the UK, valued at less than £250m, had a net asset value of 92.6p per share at September 30, against 94.4p at mid-April's launch.

Directors stressed, however, that the 1.9 per cent fall represented an outperformance of the trust's benchmark – the James Capel Smaller European Companies Index (4th Quartile) – which dropped 5 per cent.

Net revenue was £59,000 for earnings of 0.58p per share.

Smith & Nephew wins US contract

Smith & Nephew, the healthcare group, has won a North American contract with a potential value of $400m (£251.6m) over five years. It will provide orthopaedic and woundcare products to American Healthcare System, an alliance of 40 healthcare systems and 1,000 healthcare organisations in the US.

Cedardata advances 34% to £1.34m

Cedardata, the supplier of financial accounting and commercial computer software which came to the market in February, raised pre-tax profits by 34 per cent from £998,000 to £1.34m for the six months to September 30.

Turnover grew 43 per cent to £3.73m.

With earnings per share at 2.8p (2.3p), the company has declared an interim dividend of 1.05p – this compares with a forecast of not less than 0.64p.

Mr Sidney Cordier, chairman, said the company obtained two significant contracts during the period, one of which necessitated the supply of low margin computer hardware, in addition to cfacs software and services.

NEWS DIGEST

Symonds returns to the black

Symonds Engineering, the sheetmetal and toolmaking specialist, swung back into the black in the six months to September 30 as the benefits of its restructuring programme came through.

Concentration on customers requiring higher added value products generated improved margins and resulted in turnover expanding 52 per cent to £3.21m (£2.1m) and transformed losses of £126,000 into pre-tax profits of £174,000.

HBH, the toolmaker acquired for £560,000 in March, was successfully integrated, according to Mr Rod Ackrill, chairman, and made a 50 per cent contribution to profits. "HBH has given us a strengthened client base and increased capacity."

Earnings per share emerged at 1.3p (losses of 1.27p) and the interim dividend is restored with a 0.25p distribution.

Invesco Korea

Invesco Korea Trust raised diluted net asset value by 12 per cent to 156.37p in the six months to September 30. On an undiluted basis, the figure grew by 13 per cent to 167.57p. Over the same period, the Korea Composite Index appreciated by 15 per cent in sterling terms.

After-tax revenue dropped to £24,000 (£85,000) and earnings per share came to 0.1p (0.36p).

John Lusty recovers

John Lusty Group, USM-quoted food importer, reported pre-tax profits of £215,000 for the half year to September 30, the first since 1989. Losses last time were £51,000.

The turnround follows the integration of Trustin-Kerwood and The Foodfinders into a new operating entity, Trustin the Foodfinders. Restructuring costs in the period were about £50,000.

Turnover amounted to £7.17m (£3.58m). Earnings per share were 0.19p (0.44p losses).

The company has applied to reduce its share capital by cancellation of its deferred shares. No dividends can be paid until that is completed.

Capitol improves

Capitol Group, the specialist security company which came to the market in May, announced a 15 per cent rise in pre-tax profits from £472,000 to £542,000 for the half year to September 30.

All three divisions – investigatory, audit and stocktaking, and port and ferry security – had increased turnover and operating profits, Mr Michael Griffiths, chairman, said. He added that the second half had started well and the directors were looking for acquisition opportunities.

Turnover amounted to £3.5m (£3.3m). Earnings per share came through at 3.92p (3.81p) and the dividend is 1.2p.

Payphones buy-out

New World Payphones, the UK's second largest payphone company after British Telecommunications, has been the subject of a management buy-out valuing the company at £11.6m.

A new company has been established, led by Mr Richard Thompson, managing director, and with equity funding of £8.15m. The funding, committed by The Phildrew Ventures Third Fund, has bought 70 per cent of NWP from Antah European Holdings, a subsidiary of Antah Holdings, the diversified Malaysian group.

Accidents add to coal market supply tightness

By Gerard McCloskey

World steam coal supplies have been hit by a series of severe and largely unconnected accidents over the last few weeks that has added an extreme constraint to what had already become a very tight market.

Two derailments on the coal line to the South African export terminal at Richards Bay at the beginning of October, which looks likely to cut exports by 2m tonnes this year, have been followed by heavy rainfall in Colombia's Guajira region. In South Africa the derailments, linked to a break-up of the wheels on some of the rail cars, led to declarations of *force majeure* by three exporters, Trans-Natal, Rand-Coal and Amcoal.

The Guajira downpour in Colombia led to a sharp slowing in production at the El Cerrejon mines and long delays at the Puerto Bolivar loading port. While the operators of Cerrejon North – Carbocol and Intercor – are expecting throughput to be down 500,000 tonnes this year, Prodeco, operating the neighbouring Cerrejon Central, has declared *force majeure* on all shipments.

Then last week it became clear that one of the loaders operated by Colombia's other major exporter, Carbones del Caribe, had tilted at Barranquilla, forcing the company to switch to other port facilities.

A couple of years ago the coal market, such was its over-capacity, could have taken all this in its stride. But this year poor performance by the Polish exporters and very robust demand levels in Asia have created severe shortages in both coking and steam coals.

These events have coincided with the start of negotiations for annual pricing on contracts into Europe and Asia. Already there have been some extremely large rises reported – up to $9 a tonne, cif, for one Australian supplier into Europe and $9, fob, for Carbones del Caribe for two of its customers.

While it is too early to see a trend emerging in the market – not least because one US exporter, Ashland, has agreed an extremely low – $2 – rise with the Netherlands' utility GKE – it is clear that the Australians and the Colombians have very high ambitions for the 1995 market.

The South Africans, too, have set out their stall and are seeking prices in excess of $30 a tonne, fob Richards Bay, and have already signed agreements at around $30.50 fob with Belgium's Electrabel. These prices compare with some as low as $19.50 for sales into the Danish market for this year's contracts.

Into this already stressed market are about to come two major tenders – one for 4m tonnes from the Italian power company Enel and one for unlimited tonnage for 1995 delivery for National Power in the UK. This latter is expected to be broken into three sections: for imports; for UK-produced coal; and for coal falling outside the specifications that National Power normally demands of its suppliers.

Many will see this surprise tender from National Power (which could net up to 3m tonnes) as the company's first response to the proposed sale of British Coal's three regions to only one coal producer, RJB Mining. National Power is known to be extremely irritated at having to swap one monopoly supplier (British Coal) for another and is anxious to hedge against being too dependent on one source.

Russia digs into platinum and palladium stocks

By Kenneth Gooding, Mining Correspondent

Russia is digging deep into its precious metal stocks to reap the benefits of record worldwide platinum and palladium sales this year, according to Johnson Matthey, the world's biggest platinum group metals marketing organisation.

JM suggests that platinum demand will rise by 7 per cent to a new peak of 4.32m troy ounces in 1994, driven up by the requirements of producers of anti-pollution car exhaust catalysts and jewellery makers. Palladium sales are expected to rise by 12 per cent to 4.735m ounces, thanks to a substantial increase in demand from Japan's electrical industry.

Russia, the world's biggest producer of palladium and the second-biggest of platinum, is stepping up exports to provide much of the extra metal. JM in its interim review of the markets suggests that Russian sales of platinum will jump by 17 per cent from the 1993 level, to 800,000 ounces, while its palladium sales are expected to be more than 20 per cent ahead, at 2.9m ounces.

These export levels can be sustained only from stocks, suggests Mr Jeremy Coombes, the JM precious metals division's general manager, marketing. Russia's platinum group metals are by-products of nickel production by the Norilsk combine and JM says Norilsk's output has fallen by about a half from the peak (estimated at between 800,000 and 1.2m ounces) reached in the late 1980s.

"Since there is little prospect of increased production from Norilsk in the near term, future sales will depend on the size of the stockpile and the readiness of the Russian government to make metal available to the market," says Mr Coombes. Only a very few Russian officials have any idea of the size of Russia's stocks and how long they may last.

In 1991 a deluge of Russian metal caused great disturbance in the platinum market but this year Russia "is carefully tailoring platinum sales to meet demand, so its extra exports are causing no great concern," Mr Coombes says.

The Russians do not want to see palladium's price go too high – it recently reached its highest point for five years – because they fear this will encourage substitution by other metals, particularly nickel, he explains.

"So Russia will not let the palladium price race away, but it will want to see how high it can drift up."

JM makes no palladium price forecast but it concludes that there will be a slight surplus this year. It suggests demand will increase from 4.215m to 4.735m ounces, while supply will rise from 4.26m to 4.87m ounces.

Platinum supply is forecast to fall slightly, from 4.39m to 4.385m ounces, while demand is expected to rise from 4.03m to 4.32m ounces. This means that the platinum surplus, 380,000 ounces last year, will shrink to only 65,000 ounces in 1994.

Better fundamentals and the interest of investment funds in platinum (as part of a general move into commodities this year) has helped buoy up the price, JM says. It expects sentiment towards platinum to remain positive as further advances in demand result from sustained economic recovery around the world and that this will continue to support the price in a range of $400 to $450 an ounce during the next six months. Platinum was fixed in London yesterday at $416.85.

Platinum 1994 Interim review, free from Johnson Matthey, 78 Hatton Garden, London EC1N 8JP, UK.

Producer hedging seen capping gold price above $400

By Kenneth Gooding

Rising interest rates are encouraging more gold mining companies to hedge their future production and this appears to be putting a "cap" on any price rise above US$400 a troy ounce, according to the World Gold Council.

North American producers can now lock-in prices of about $410 an ounce for deliveries one year forward, the WGC points out. In Australian dollar terms, forward premiums look even more attractive, it reports in its latest quarterly Gold Demand Trends publication.

Interest rate increases have pushed one-year gold contangos (premiums for future delivery) to above 5 per cent.

The WGC also points out that, when the gold price tested the top end of its $370-$395 range "heavy trade selling was encountered and the price fell back".

Countries monitored by the WGC, a promotional organisation financed by some gold mining groups, account for an estimated 75 per cent of world demand. In these areas, third-quarter gold demand was 6.2 per cent above the 1993 level at 593 tonnes. But for the first nine months, demand was down 6.4 per cent at 1,690.9.

Mr Roger Murphy of the WGC's gold economics service in Europe, pointed out that demand was very high in the first half of 1993 because the price was perceived to be exceptionally low. There had since been a rise of about 20 per cent and latest figures indicated demand was stabilising.

If the third-quarter trend continued for the rest of 1994, gold consumption for the full year would come close to the 1992 record of 2,473.6 tonnes.

MARKET REPORT

Base metals prices slip from highs

Base metal market business slackened at the London Metal Exchange and prices slipped from their highs to close mixed when some speculator profit-taking emerged.

Three months COPPER, which peaked at $2,770 a tonne in the morning, closed at $2,754.50, up $3.50 on balance.

ZINC's three months delivery price had touched $1,200 a tonne for the first time in more than two years. But it could not erode resistance above that level and steadily backtracked to $1,189.50 at the close, $down $2.75.

Supported by another large drawdown from LME warehouse stocks, three months ALUMINIUM rose to $1,895 a tonne early on and threatened to test recent four-year peaks above $1,900. But it too retreated, closing $7.50 down on the day at $1,875.50 a tonne.

At the London Commodity Exchange, COFFEE futures continued the recent slide. The January position touched $3,320 a tonne before closing at $3,349, down another $54.

"There is not a blind bit of interest from industry," commented one dealer, adding that lower than expected retail demand in the last quarter had sidelined industry buyers.

COCOA futures rallied from early lows to end sharply higher following New York's bullish trend, dealers said. The March position closed at £981 a tonne, up £14.

Compiled from Reuters

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	-14,025	to 1,557,900
Aluminium alloy	-40	to 26,520
Copper	-3,675	to 315,325
Lead	-725	to 366,500
Nickel	-6	to 150,492
Zinc	-1,050	to 1,214,200
Tin	-190	to 26,990

American prospectors look southwards

By Kenneth Gooding

US mining companies are acting on their threats to move most of their exploration efforts to Latin America because of the constraints they claim are put on their activities in their own country.

So for the first time Latin America is emerging as the most favoured area for mining exploration, jumping from third place in 1993 to top this year. At the same time spending in the US is falling, according to the latest annual survey of mining exploration expenditure by Metals Economics Group, the Canadian consultancy.

Total expenditure budgeted for this year by the 151 companies surveyed by MEG is up by a net US$206.4m from the 1993 level to $9.13bn – the second successive annual increase and conclusively reversing the trend for budget cuts seen at the end of the 1980s and in the early 1990s.

MEG says its survey covers about 80 per cent of world-wide expenditures. The consultants attempt to exclude from the totals any portion of diversified company budgets devoted to energy minerals, iron ore or aluminium-related exploration.

Companies with budgets totalling $2.05bn give a geographic split of their spending. MEG says this shows 26.5 per cent ($543.7m against $331m in 1993) will be spent in Latin America, with Chile the most-favoured country followed by Mexico, Brazil, Venezuela and Peru.

Meanwhile, spending in the US, which has ranged between $340m and $350m, is dropping below $325m this year, marking "the first time that the perceived constriction caused by the more stringent US regulatory environment has actually manifested in company budget allocations".

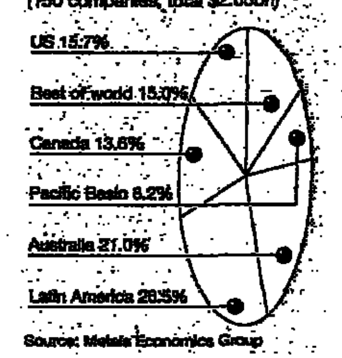
Of the $9.13bn of total spending covered by the survey, 56.4 per cent ($1.2bn) is going towards gold exploration, up from 49 per cent ($925m) in 1993. Base metals exploration is down to 31 per cent ($660.3m), from 35 per cent ($669m). Some 57 per cent of base metals expenditure is being directed this year at copper.

Grassroots spending – as distinct from exploration at or near existing mine sites – is accounting for 53.5 per cent ($1.1bn) of the total.

MEG says junior companies are back in force this year and it was obliged to change its cut-off for budgets included in the survey to $2m instead of the $1m used in previous years. It estimates that about 85 junior companies not included in its survey may be spending between $1m and $2m each on exploration for non-ferrous metals and minerals this year.

Worldwide exploration budget, 1994

By location (150 companies, total $2.05bn)



Source: Metals Economics Group

Corporate Exploration Strategies: A worldwide analysis: US$7,500 from Metals Economics Group, PO Box 2206, Halifax, Nova Scotia, Canada B3J 3C4.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1857-8	1875-6
Previous	1868.5-9.5	1882.5-3.5
High/low	1873	1890/1877
AM Official	1872-3	1888.5-9
Kerb close		1878-80
Open int.	N/A	
Total daily turnover	N/A	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1810-20	1845-55
Previous	1810-20	1850-5
High/low		1865/1845
AM Official	1825-35	1860-5
Kerb close		1830-40
Open int.	N/A	
Total daily turnover	N/A	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	672-3	690-0.5
Previous	666.5-7.5	684-5
High/low		691/686
AM Official	672-3	690-0.5
Kerb close		686-7
Open int.	N/A	
Total daily turnover	N/A	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7550-60	7675-7
Previous	7510-20	7635-40
High/low		7800/7650
AM Official	7665-7	7790-5
Kerb close		7670-80
Open int.	N/A	
Total daily turnover	N/A	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6200-10	6300-5
Previous	6225-35	6325-30
High/low		6420/6240
AM Official	6290-300	6395-400
Kerb close		6280-90
Open int.	N/A	
Total daily turnover	N/A	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1164-5	1189-90
Previous	1166.5-7.5	1182-2.5
High/low	1176	1200/1186
AM Official	1175-6	1200-1
Kerb close		1186-7
Open int.	N/A	
Total daily turnover	N/A	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2772-3	2754-5
Previous	2781-2	2750-2
High/low	2795/2770	2770/2745
AM Official	2795-800	2760-1
Kerb close		2758-9
Open int.	N/A	
Total daily turnover	N/A	

■ LME AM Official £/$ rate: 1.5870
LME Closing £/$ rate: 1.5841

Spot:1.5840 3 mths:1.5831 6 mths:1.5810 9 mths:1.5785

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Nov	130.00	+1.65	130.00	130.00	1,236	134
Dec	129.05	+1.55	130.10	127.20	32,611	2,019
Jan	127.70	+1.00	127.00	127.00	926	14
Feb	126.35	+0.50	-	-	578	1
Mar	125.35	+0.35	127.10	124.90	13,965	3,322
Apr	122.85	-0.30	-	-	653	10
Total					89,467	6,333

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	386.80-387.10	
Opening	386.60-387.00	
Morning fix	386.45	243.173
Afternoon fix	386.70	243.683
Day's High	387.10-387.40	
Day's Low	386.80-386.90	
Previous close	385.00-385.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.67	6 months	5.24
2 months	4.93	12 months	5.71
3 months	4.98		

Silver Fix	p/troy oz.	US cts equiv.
Spot	328.15	521.35
3 months	332.90	528.55
6 months	338.10	536.15
1 year	350.95	564.65

Gold Coins	$ price	£ equiv.
Krugerrand	389-392	245-248
Maple Leaf	397.30-399.80	-
New Sovereign	91-94	57-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Nov	386.7	+2.2	-	-	1	1
Dec	387.3	+2.1	387.9	386.8	75,473	12,611
Jan	389.1	+2.1	-	-	-	-
Feb	391.0	+2.1	391.6	390.5	25,869	4,171
Apr	394.8	+2.1	395.2	394.3	10,099	2,014
Jun	398.5	+2.1	398.2	398.2	10,294	591
Total					184,476	23,781

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Jan	417.6	+2.9	418.5	416.5	17,473	1,877
Apr	422.1	+2.9	423.5	422.0	7,177	119
Jul	426.5	+2.9	-	-	1,974	13
Oct	431.6	+2.9	431.0	431.0	500	-
Jan	434.6	+2.9	-	-	10	-
Total					27,134	2,009

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Dec	158.85	+1.05	159.50	158.50	3,651	414
Mar	159.85	+1.35	160.50	159.25	3,676	293
Jun	160.85	+1.60	160.75	160.75	486	-
Sep	161.10	+1.10	161.25	161.25	31	-
Total					7,844	707

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Nov	520.9	+4.8	-	-	35	35
Dec	522.0	+4.5	524.0	520.5	60,732	10,781
Jan	524.3	+4.5	-	-	87	1
Mar	530.5	+4.6	533.0	529.0	31,840	3,504
May	536.4	+4.8	538.0	536.0	5,519	420
Jul	542.6	+4.8	544.0	540.0	7,088	920
Total					127,354	18,149

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	17.46	-0.01	17.64	17.41	50,523	47,327
Jan	17.51	+0.01	17.67	17.47	98,737	56,265
Feb	17.48	+0.01	17.64	17.43	42,278	14,651
Mar	17.47	+0.03	17.58	17.44	25,483	4,909
Apr	17.42	+0.01	17.55	17.42	17,740	1,831
May	17.44	+0.08	17.45	17.42	12,591	873
Total					387,205	133,803

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	17.38	+0.09	17.46	17.35	50,937	25,420
Jan	16.62	+0.03	16.79	16.57	87,415	35,902
Feb	16.50	+0.08	16.56	16.37	24,228	6,249
Mar	16.35	+0.10	16.41	16.25	13,242	2,596
Apr	16.33	+0.16	16.33	16.19	5,623	129
May	16.26	+0.21	16.26	16.26	3,131	245
Total					195,842	70,095

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	48.70	-0.16	49.50	48.60	38,219	17,035
Jan	49.25	-0.12	50.05	49.10	39,293	7,762
Feb	49.75	-0.22	50.40	49.75	24,011	3,558
Mar	49.75	-0.02	50.20	49.75	13,925	1,219
Apr	49.15	+0.08	49.25	49.15	8,313	382
May	48.50	+0.03	48.65	48.50	4,481	154
Total					154,556	31,398

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	151.25	-2.25	152.75	150.50	38,601	8,274
Jan	153.25	-2.00	154.75	152.50	23,976	3,174
Feb	154.50	-1.75	155.25	154.00	11,439	1,318
Mar	154.25	-1.75	155.00	153.50	7,803	445
Apr	152.75	-1.75	153.50	152.00	3,043	289
May	152.25	-1.75	-	-	785	-
Total					84,201	13,473

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	1.700	-0.008	1.718	1.685	28,050	10,813
Jan	1.860	+0.002	1.870	1.850	28,213	4,209
Feb	1.870	-	1.880	1.865	15,722	1,987
Mar	1.860	-	1.865	1.856	12,753	1,056
Apr	1.825	-0.005	1.830	1.825	7,259	355
May	1.827	-0.007	1.830	1.825	7,109	373
Total					147,903	21,639

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	57.65	-0.22	58.40	57.50	24,889	14,408
Jan	55.05	-0.32	55.65	54.90	22,133	5,878
Feb	54.00	-0.47	54.85	54.00	8,672	1,316
Mar	54.25	-0.20	54.55	54.35	4,456	464
Apr	57.40	-0.30	57.70	57.40	5,192	380
May	58.98	-0.60	-	-	1,686	107
Total					70,552	22,811

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	103.95	+0.20	104.25	103.75	376	78
Jan	104.65	+0.25	104.80	104.40	1,970	98
Mar	106.55	+0.25	106.80	106.45	1,627	45
May	108.65	+0.35	108.80	108.50	1,656	47
Jul	110.25	+0.20	110.55	110.40	119	5
Sep	93.75	+0.25	-	-	43	-
Total					6,374	328

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	378/2	-2/4	383/0	378/0	25,544	5,569
Mar	389/6	-2/2	394/4	389/4	29,151	4,817
May	369/6	-	373/2	369/4	4,590	417
Jul	338/0	-0/6	341/2	337/2	10,908	1,362
Sep	343/0	+0/2	345/6	342/4	336	4
Dec	352/4	+0/4	354/0	352/0	158	10
Total					70,694	12,179

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	216/6	-0/2	218/6	216/4	98,676	16,261
Mar	228/0	-0/2	229/6	227/6	75,312	6,418
May	235/4	-	236/6	235/0	29,610	2,376
Jul	240/2	-0/2	241/6	240/0	39,241	2,250
Sep	245/0	-0/2	246/4	244/6	3,660	300
Dec	249/2	-1/0	251/0	249/0	19,709	1,224
Total					268,187	28,903

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	100.00	+0.75	-	-	1	-
Jan	102.25	+0.75	-	-	474	-
Mar	104.25	+0.75	-	-	130	-
May	105.00	-	-	-	44	-
Sep	92.00	-0.50	-	-	20	-
Nov	94.25	-0.15	-	-	52	-
Total					721	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	560/2	+4/4	563/0	551/4	5,352	6,452
Jan	568/0	+3/4	572/0	569/0	54,634	16,987
Mar	577/2	+3/2	580/2	569/0	27,715	7,390
May	584/2	+2/6	586/4	575/0	14,504	1,265
Jul	589/4	+2/6	591/0	582/0	22,301	2,588
Aug	592/0	+3/4	592/0	588/4	1,714	85
Total					136,399	37,872

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	28.28	+0.67	28.37	27.15	35,299	5,611
Jan	27.12	+0.54	27.15	26.17	22,321	4,444
Mar	26.10	+0.38	26.15	25.40	17,718	4,288
May	25.27	+0.24	25.35	24.65	14,082	1,210
Jul	24.52	+0.05	24.75	24.25	8,767	1,974
Aug	24.23	+0.03	24.35	24.20	1,724	103
Total					107,247	18,787

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	159.2	+0.1	161.7	158.9	33,208	3,030
Jan	160.6	+0.1	163.8	160.5	20,638	1,620
Mar	165.1	+0.5	167.8	164.5	18,620	932
May	169.4	+0.2	171.0	168.7	10,024	1,300
Jul	174.1	-0.2	175.5	173.6	9,898	578
Aug	176.0	-0.1	177.2	175.8	2,001	113
Total					102,021	8,289

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	105.0	-	-	-	-	-
Apr	252.8	+8.3	253.0	246.0	1,485	326
May	265.0	+15.0	260.0	260.0	-	1
Jun	250.0	-	-	-	-	-
Total					1,485	327

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	1850	+15	1850	1835	260	42
Dec	1800	+5	1805	1800	383	8
Jan	1715	+5	1715	1705	1,061	15
Apr	1658	+13	1655	1650	928	4
Jul	1473	-17	-	-	132	-
Oct	1563	-47	-	-	17	-
Total					2,781	69

	Close	Prev
BFI	1838	1830

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	956	+15	958	934	18,655	1,492
Mar	981	+14	982	962	43,101	3,905
May	989	+14	990	971	14,851	555
Jul	1002	+13	1002	986	6,620	89
Sep	1015	+14	1015	1000	12,764	63
Dec	1029	+14	1030	1016	9,795	219
Total					112,373	6,497

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1288	+39	1289	1249	2,624	10,421
Mar	1335	+29	1340	1310	40,178	11,384
May	1361	+24	1363	1337	8,466	442
Jul	1385	+25	1389	1358	3,890	438
Sep	1408	+25	1408	1385	1,578	89
Dec	1438	+25	1422	1422	5,088	19
Total					67,858	22,805

■ COCOA (ICCO) (SDR's/tonne)

Nov 14	Price	Prev. day
Daily	962.73	968.95

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	3325	-35	3330	3290	370	49
Jan	3349	-54	3385	3320	9,756	2,872
Mar	3321	-42	3340	3290	7,699	1,960
May	3303	-30	3305	3270	3,301	864
Jul	3290	-23	3295	3255	1,331	272
Sep	3270	-18	3255	3250	2,108	52
Total					24,847	6,069

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	171.25	-5.90	176.00	169.70	8,339	3,931
Mar	176.90	-5.25	181.00	175.00	14,493	4,888
May	179.50	-6.00	183.00	179.50	5,508	514
Jul	181.25	-5.50	184.25	180.75	1,806	231
Sep	182.50	-5.50	185.50	182.00	971	74
Dec	183.75	-5.00	187.50	182.75	825	8
Total					32,177	9,848

■ COFFEE (ICO) (US cents/pound)

Nov 14	Price	Prev. day
Comp. daily	172.72	177.22
15 day average	177.58	178.30

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	-	-	-	-	-	-
Mar	-	-	-	-	90	-
May	-	-	-	-	560	-
Jul	-	-	-	-	450	-
Total					1,100	-

■ WHITE SUGAR LCE ($/tonne)(Latest Prices)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	383.20	-0.30	385.00	381.40	9,848	1,919
May	377.50	-1.00	378.60	375.40	3,751	1,198
Aug	368.60	-0.70	369.50	368.50	2,801	1,124
Oct	342.50	+0.70	342.50	339.80	1,282	518
Dec	-	-	-	-	100	-
Total					18,168	4,759

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	13.64	-0.02	13.72	13.53	100,304	12,532
May	13.68	-	13.74	13.58	30,107	4,830
Jul	13.43	-0.02	13.48	13.37	18,502	1,755
Oct	12.83	-0.02	12.87	12.80	15,914	1,692
Mar	12.38	+0.01	12.44	12.37	3,322	183
May	12.31	+0.01	12.31	12.28	253	52
Total					168,594	21,065

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	74.60	+1.10	74.68	73.90	16,885	5,224
Mar	75.95	+0.77	76.38	75.60	21,126	3,658
May	77.05	+0.70	77.25	76.70	7,652	766
Jul	77.82	+0.67	78.10	77.51	4,912	273
Oct	71.50	+0.30	71.50	71.25	641	14
Dec	70.50	+0.30	70.55	70.10	3,241	196
Total						

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	111.15	-0.20	111.35	110.50	203	49
Jan	114.95	-0.15	115.25	113.75	15,721	1,438
Mar	118.50	+0.05	118.80	117.25	5,818	657
May	121.50	+0.05	-	-	1,709	214
Jul	124.50	+0.05	124.50	124.50	915	1
Sep	127.45	+0.50	-	-	1,285	111
Total					27,352	2,558

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.275	-0.625	70.600	70.175	27,767	4,154
Feb	69.325	-0.525	69.700	69.200	26,180	3,113
Apr	69.675	-0.425	69.950	69.600	15,842	1,673
Jun	65.575	-0.300	65.800	65.425	5,417	225
Aug	64.125	-0.300	64.425	64.050	1,648	67
Oct	64.950	-0.250	65.050	64.800	517	82
Total					77,378	9,314

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	33.475	-0.425	33.875	33.400	15,166	2,628
Feb	36.575	-0.250	36.875	36.500	11,984	2,053
Apr	37.675	-0.025	37.800	37.500	5,648	417
Jun	42.725	-0.025	42.750	42.525	2,883	209
Aug	42.250	-0.150	42.250	42.150	623	55
Oct	39.350	-0.075	39.450	39.325	459	32
Total					37,555	5,440

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	40.800	-0.550	41.300	40.600	8,139	1,452
Mar	41.075	-0.500	41.450	40.850	1,240	128
May	41.950	-0.550	42.550	41.950	351	32
Jul	42.750	-0.500	43.100	42.600	364	16
Aug	41.750	-0.500	-	41.500	87	2
Total					10,181	1,630

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1800	125	156	27	72
1850	96	129	66	93
1900	72	106	93	118
■ COPPER (Grade A) LME	Feb	May	Feb	May
2700	133	101	76	156
2750	107	-	99	-
2800	84	-	106	-
■ COFFEE LCE	Jan	Mar	Jan	Mar
3400	165	241	216	320
3450	146	225	247	354
3500	130	209	281	388
■ COCOA LCE	Dec	Mar	Dec	Mar
925	31	81	-	25
950	9	66	3	35
975	1	52	20	46
■ BRENT CRUDE IPE	Jan	Apr	Jan	Apr
1650	65	84	46	108
1700	49	66	65	139
1750	24	51	105	174

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec)

		+or-
Dubai	$15.47-5.53z	-0.23
Brent Blend (dated)	$16.91-6.93	-0.21
Brent Blend (Jan)	$16.61-6.63	-0.21
W.T.I. (1pm est)	$17.54-7.56z†	-0.36

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$173-175	
Gas Oil	$152-154	-2.5
Heavy Fuel Oil	$104-106	
Naphtha	$172-175	+0.5
Jet fuel	$176-177	-4.0
Diesel	$159-161	-2.5

Petroleum Argus. Tel. London (071) 359 8792

■ OTHER

Gold (per troy oz)‡	$386.95	+1.75
Silver (per troy oz)‡	522.5c	+5.0
Platinum (per troy oz.)	$416.85	+4.80
Palladium (per troy oz.)	$158.00	+1.60
Copper (US prod.)	133.0c	+4.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.50r	+0.02
Tin (New York)	290.5c	
Cattle (live weight)†	116.79p	+0.26*
Sheep (live weight)†♣	102.25p	+1.34*
Pigs (live weight)	77.12p	+0.58*
Lon. day sugar (raw)	$336.90	+0.40
Lon. day sugar (wte)	$387.00	-8.50
Tate & Lyle export	£325.00	
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	Unq.	
Wheat (US Dark North)	£165.0v	
Rubber (Dec)¥	86.25p	
Rubber (Jan)¥	85.75p	
Rubber (KL RSS No1 Jul)	342.0m	-0.5
Coconut Oil (Phil)§	$697.5q	-35.0
Palm Oil (Malay.)§	$720.0t	
Copra (Phil)§	$467.0v	-13.0
Soyabeans (US)	£164.0x	+1.0
Cotton Outlook'A' Index	77.25c	+0.50
Wooltops (64s Super)	455p	+2

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Nov/Dec. u Oct/Nov. z Jan. t Nov. q Dec/Jan¥ London Physical. § CIF Rotterdam. ‡ Bullion market close. ♣ Sheep (Live weight prices). * Change on week ⊕ Prices are for previous day. † - 14/11/94 Corrected figure for WTI $17.90-7.92

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 5,850-6,050 (5,920-6,020). Bismuth: min. 99.99%, tonne lots 3.60-3.95. Cadmium: min. 99.5%, 180-195 cents a pound. Cobalt: MB free market, 99.8%, 26.00-27.00 (26.50-27.30); 99.3%, 24.50-25.50 (24.30-25.40). Mercury: min. 99.99%, $ per 76 lb flask, 115-135. Molybdenum: drummed molybdic oxide, 7.00-7.50 (6.20-6.60). Selenium: min 99.5%, 3.45-4.65. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. Vanadium: min. 98%, cif, 1.45-1.55 (1.40-1.55). Uranium: Nuexco exchange value, 7.00.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 15	Nov 14	month ago	year ago
2139.0	2133.1	2060.4	1615.5

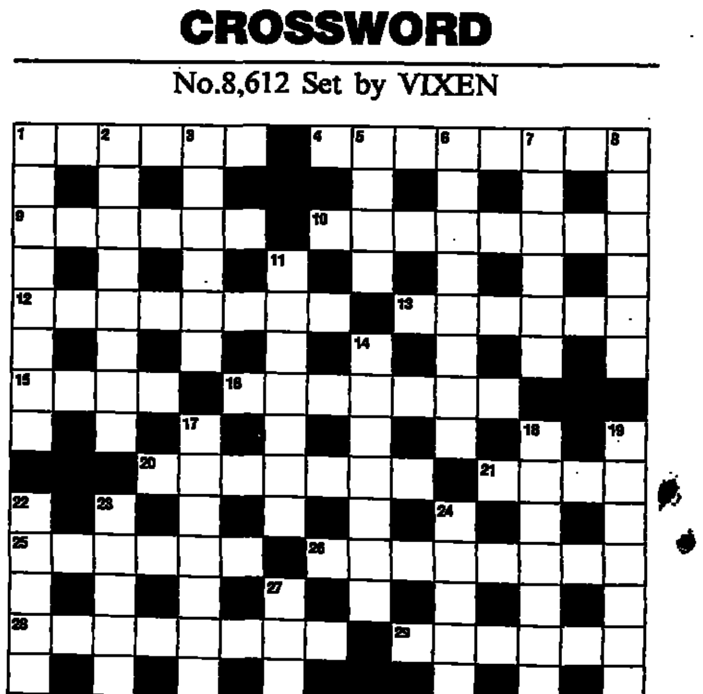
■ CRB Futures (Base: 1967=100)

Nov 14	Nov 11	month ago	year ago
233.26	233.64	-	222.54

JOTTER PAD

CROSSWORD

No.8,612 Set by VIXEN



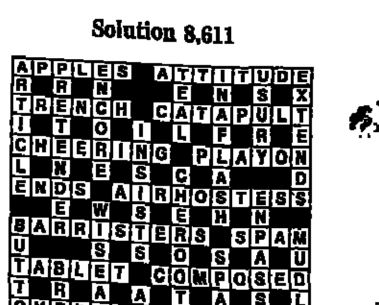
ACROSS

1 Man races around a further military display (6)
4 In brave hands it could be lethal (8)
9 There's quite a buzz about this accommodation for workers (6)
10 Becoming hangers-on (8)
12 Fair with skinhead in residence (8)
13 Set out and took down all someone had (6)
15 The personnel list always includes a woman (4)
16 Nobody paid to be admitted (7)
20 Cache discovered in south-east Mediterranean island (7)
21 Only water is required (4)
25 An American scientist has no team backing (6)
26 The making of secret changes without penalty (4-4)
28 A guide covering British currency as well as foreign (8)
29 Abuse one may get in traffic (6)
30 Books about benefits available (8)
31 Centre being rebuilt in modern style (6)

DOWN

1 Object about one point a number put in demonstrating (8)
2 Figure of exceptionally neat girl (8)
3 The monster in charge will get progressively worse (6)
5 Scottish resort where there's absolutely no prohibition (4)
6 Stayed in custody (8)
7 Temper shown when an incorrect lane is used (6)
8 Fate of Korean capital is settled (6)
11 Ask for one of the little people – fifty stone! (7)
14 The meeting's not in favour of discretion being exercised (7)
17 Progressive man calling for military force no longer (8)
18 Get less iron (8)
19 Flats for adults in principle (8)
22 A person who counts as an announcer (6)
23 They're very big and may have a sting (6)
24 Hit by industrial action (6)
27 It's clear the charge is about right (4)

Solution 8,611



LONDON STOCK EXCHANGE

MARKET REPORT

Buy programme drives Footsie through 3,100

By Steve Thompson

It was virtually all good news yesterday for a London stock market celebrating a series of specialist deals, including a £500m share buy-back by one of the leading FT-SE 100 stocks, a huge buy programme, a highly successful bought deal and a series of excellent company news items.

Added to that heady cocktail was another strong performance by Wall Street, which gained ground shortly after the opening yesterday ahead of the outcome of the crucial Federal Open Market Committee meeting in Washington. Wall Street shrugged aside another batch of economic data from the US indicating strong growth in the economy.

At the close of trading, and with no news from the FOMC meeting available to the market, the FT-SE 100 Index fulfilled recent market optimism, sweeping confidently through the 3,100 barrier and closing a net 40.1 higher at 3,135.4.

Second-line stocks shared in the buoyant mood of the market, the FT-SE Mid 250 closing 22.6 stronger at 3,560.7. And there was a general air of optimism around City trading desks, with dealers adopting the view that, within reason, the UK market would take whatever was thrown at it by the Federal Reserve.

"If we get 50 basis points, the market will say it is already in the prices; if we get 75 or even 100 points, the bond market will love it and we will hang on to their coat tails," was the view of one top trader in London, although he cautioned that the market would definitely not appreciate an absence of movement by the Federal Reserve.

The overall bullish view was reinforced by a surge of activity in derivatives markets, where turnover was said to have been the heaviest since mid-September.

Turnover expanded rapidly throughout the session to reached 961.4m shares, the highest seen for many weeks, with non-Footsie stocks accounting for an unusally low 39 per cent of the total.

Dealers picked up the scent of a big market operation before the opening and prices across the board were marked better at the outset, when the FT-SE 100 was around 10 points ahead.

News that Boots had sent its broker S.G. Warburg into the market to buy in around 10 per cent of its shares drove Boots sharply higher until the buy-back operation was satisfied. Boots' move came 24 hours after it sold its pharmaceuticals division to BASF, the German chemicals company.

At the same time, AMP Australia, the life assurance group, sold its 3.2 per cent holding to Smith New Court, the UK securities house, who quickly placed the stock in the market, taking a 3p a share turn in the process.

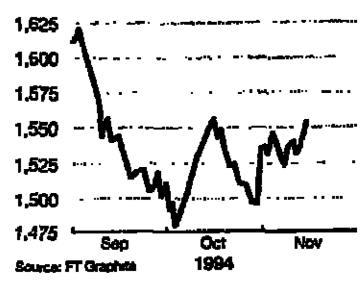
While these deals were being unwound, Goldman Sachs, the US investment bank, moved in to execute a £160m-plus buy programme, spanning the FT-SE 100 and 250 indices. These three big operations accounted for more than 270m shares, or 28 per cent of turnover in the market yesterday.

At its best, just before the close, the FT-SE 100 was more than 42 points up, with dealers reporting only light profit-taking towards the close.

Company trading reports provided numerous outstanding features, including De La Rue, the banknote printing group, whose shares sprinted to an all-time high after excellent results, while PowerGen fulfilled even the most optimistic dividend forecasts. General Accident was the one real disappointment in the market as the steep fall in the insurance group's net asset value and middle of the range third-quarter profits left the market unimpressed.

The best individual performance in the FT-SE 100-share Index came from Standard Chartered, viewed by many chartists as in the initial stages of a big upside break; dealers noted heavy turnover in Standard shares.

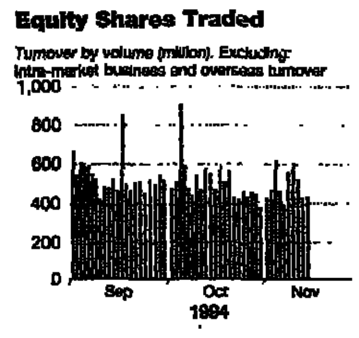
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ **Key Indicators**

Indices and ratios

FT-SE 100	3135.4	+40.1	FT Ordinary Index	2408.4	+28.7
FT-SE Mid 250	3560.7	+22.6	FT-SE-A Non Fins p/e	18.80	(18.67)
FT-SE-A 350	1570.2	+17.8	FT-SE 100 Fut Dec	3151.0	+52.0
FT-SE-A All-Share	1553.90	+16.59	10 yr Gilt yield	8.65	(8.68)
FT-SE-A All-Share yield	3.91	(3.95)	Long gilt/equity yld ratio:	2.24	(2.23)

Best performing sectors

1. Gas Distribution .... +2.9
2. Extractive Industries .... +2.2
3. Oil, Intergrated .... +1.7
4. Mineral Extraction .... +1.7
5. Banks .... +1.7

Worst performing sectors

1. Insurance .... -0.7
2. Other Services & Bus. .... +0.0
3. FT-SE SmallCap ex IT .... +0.1
4. FT-SE SmallCap .... +0.2
5. Engineering .... +0.2

Boots in £500m buy-back

The market spotlight fell on **Boots** after the consumer products retailer surprised the market, early in the day, with a £500m scheme to buy back its own shares.

Turnover by the close had reached a hefty 213.4m shares, making it by far the day's most actively dealt stock, as it registered a rise of 12 at 525p.

S.G. Warburg, the company's broker, bought a short 10 per cent of the Boots shares for cancellation, with the lowest price paid being 528p and the highest 535p.

The market had expected the *buy-back, although several* researchers had indicated that they thought the company was only likely to make this move after the UK budget later this month.

Warburg encountered little difficulty in acquiring the desired block of shares. Dealers suggested that there had been many willing sellers, with one retail specialist reporting estimates that Warburg could have bought as much as 30 per cent of the group's issued share capital.

Yesterday's move followed confirmation on Monday that Boots is selling its pharmaceuticals division to BASF, the German chemicals and drugs *group, for around £850m. One* analyst said the combination of the two developments left the company "flexible to make an acquisition".

Meanwhile, analysts expect the selling institutions to pump their newfound cash back into the retail sector.

De La Rue jumps

Shares in cash rich De La Rue, the bank note printer, hit an all-time high as the market responded to a sparkling set of interim results. *Profits* of £72.8m were boosted by a far higher than forecast input from its printing machine subsidiary, and compared with *forecasts of £65m to £67m. The* interim dividend was raised by 6 per cent.

The stock also received a fillip from the lively start to the *National Lottery* – De La Rue is one of the five companies in the Camelot consortium which runs the Lottery. The shares jumped 31 to 1034p, although *some analysts were beginning* to wonder if their premium rating is beginning to look a little demanding. Paper group Portals, one of De La Rue's principal suppliers, rose 37 to 725p.

However, Racal, another of the Camelot partners, failed to share in yesterday's lottery fever, sliding 11½ to 235½p late in the afternoon as a sizeable *line of stock hovered over the* market. Turnover in the stock totalled 2.4m.

GA disappointment

The third-quarter figures season for the insurance composites ended with a whimper of disappointment as General *Accident's results included* shock paper losses from its market investments, particularly in the US.

The group has invested *heavily in US long bonds, the* area of government debt hit severely by growing concern over inflation. In spite of underwriting profits up at *£321.6m from £206.5m* previously, GenAcc revealed its investment portfolio had fallen by between £100m and £150m over the third quarter.

Those unrealised losses were primarily responsible for pushing GenAcc's net asset value down to 410p from 545p at the end of last year. And with no *news of a Fed Rate rise in market hours to dampen down* inflationary concern, the shares were trading at an unsustainable premium of *around 38 per cent at the start* of business yesterday. They were marked down 19 to 365p by the close.

Cable group **BICC** put on 2 at 355p in heavy 7.4m turnover following a 3m-share agency cross by broker James Capel.

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (38).

BANKS (1) Banco Bilbao Vizcaya, **BREWERIES** (1) Wetherspoon (JD), **DISTRIBUTORS** (1) Adam & Harvey, **ELECTRNC & ELECT EQUP** (3) Ericsson (LM), Magnum Power, Motorola, **ENGINEERING** (3) Baynes (C), Black & Decker, Spirax-Sarco, **ENG. VEHICLES** (1) Honda Motor, **EXTRACTIVE INDS** (3) Caledonia Mining, Gold Fields SA, Randex, **HEALTH CARE** (1) Seton Healthcare, **INVESTMENT TRUSTS** (4) **LEISURE & HOTELS** (2) London Clubs, VCI, **LIFE ASSURANCE** (1) Liberty Life Assoc. of Africa, **MEDIA** (3) Elsevier, Yorkshire Tyne-Tees TV, Do Wrts., **OIL EXPLORATION & PROD** (1) Crusader, **PHARMACEUTICALS** (1) Astra B, **PRTNG, PAPER & PACKG** (1) De La Rue, **PROPERTY** (1) Artesian Ests., **SUPPORT SERVS** (3) ADT, Capital, Rolle & Nolan, **TELECOMMUNICATIONS** (1) Vodafone, **TEXTILES & APPAREL** (1) Chamberlain Phipps, **TRANSPORT** (1) P & O 5½pc Prfd., **AMERICANS** (2) **SOUTH AFRICANS** (2) Anglo Am. Inds., NK Properties.

NEW LOWS (52).

BUILDING & CNSTRN (3) AMEC, *Boot (H)*, Raine, **BLDG MATLS & MCHTS** (2) British Dredging, Sycamore, **DISTRIBUTORS** (5) Coslvet, Hamlet, Headlam, SEP Ind'l., Do Prfd., **DIVERSIFIED INDLS** (2) Scavelsy Inds., Suter Wrnts., **ELECTRNC & ELECT EQUP** (4) Berkeley Business, DRS Data Res., Forward, Pressac, *ENGINEERING* (1) *GEI Int'l.*, *EXTRACTIVE INDS* (1) Emperor Mines, **HEALTH CARE** (1) AAH, **INVESTMENT TRUSTS** (4) **LEISURE & HOTELS** (3) Alpha Airports, Barr & WAT, Do A, , **OIL EXPLORATION & PROD** (1) Command Petroleum, **OTHER FINANCIAL** (3) Energy Capital, Inrism Justitia, Oceans Consid., **PHARMACEUTICALS** (1) Elan Corp., **PRTNG, PAPER & PACKG** (2) Cropper (J), Flyou, **PROPERTY** (9) Chesterfield, Ex-Lands 7½pc Cv. 2020, Olives Prop., PSIT, Scottish Metropolitan, **RETAILERS, FOOD** (1) Geest, **RETAILERS, GENERAL** (3) Fine Art Devlpts., Mallett, Signet, **SUPPORT SERVS** (4) Microgen, Novo, Pegasus, Warner Howard, **TEXTILES & APPAREL** (3) Parkland, Readicut, Sirdar, **AMERICANS** (3).

Mobile communications group **Vodafone** added 3½ at 221p *as a powerful institutional* two-way pull in the shares ahead of next Tuesday's interim results triggered turnover of 13m.

Leading diversified industrial group **BTR** was the second most heavily traded Footsie stock, with 27m shares *dealt on the back of a powerful* institutional two-way pull. BTR gained 6 at 162½p.

Lonrho, the international *trading* conglomerate, put on 3 *at 159½p in turnover of 5.2m*, adding to the rise over the past two weeks since joint chief executive Mr Tiny Rowland announced his departure.

British Gas jumped 9 to 303½p ahead of third-quarter figures due today.

Turnover in **Eurotunnel** hit 7.1m shares in Paris – 5.5m *more than its nearest rival in* the French activity charts – and generated enough excitement to push the stock a further 14 higher in London to *284p. London turnover was* 4.1m. The shares have risen by more than 40 per cent in five weeks.

BOC added 12 at 722p after the company released full-year results at the high end of analysts' forecasts. Hoare Govett lifted its current year forecast by £30m to £395m and moved from a hold to a buy.

Mining group **RTZ** jumped 20 to 859p in the registered shares, with dealers saying Cazenove, which never comments on market talk, had issued a buy note to clients.

SmithKline Beecham was restrained initially on news that its acquisition of Diversified Pharmaceutical Services was being examined by the Federal Trade Commission. However, the shares recovered to close 6 better at 426p.

Powergen advanced 8 to 559p after a better than expected 26.6 per cent increase in the interim dividend.

Many anticipate that Powergen will announce a share buy-back scheme soon.

Sentiment in Powergen boosted **National Power**, which reports interim figures tomorrow. It gained 7½ at 503p.

A recommendation by James Capel boosted **Southern Electricity**, which moved forward 5 *to 822p.*

Among drinks stocks, **Scottish & Newcastle** benefited from a recommendation from Nomura. The shares put on 11 *at 513p.*

The Boots buy-back prompted the return of speculation that **Great Universal Stores** would make a similar *move. GUS rose 17 to 571p.*

Turnover in property group **Hammerson** jumped to 17.6m after Smith New Court carried out a bought deal in which it placed a 3.2 per cent stake owned by life insurance group **AMP Australia** with a variety of institutions. The shares closed 5 off at 341p.

Elsewhere in the *sector*, a sharp increase in interim profits boosted **Great Portland Estates** 6 to 189p.

Unlisted **Ramco Energy**, which services the petroleum and marine industries, jumped 35 to 255p after announcing that an agreement with the State Oil Company of Azerbaijan had been ratified.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

■ Other statistics, Page 25

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures moved ahead strongly for the second day running, but it was the surge in activity that mostly caught traders' imaginations, *writes Jeffrey Brown.*

The number of contracts dealt in the FT-SE 100 December contract soared to 19,792 during pit trading in heavy two-way business. Monday's volume was 8,545.

At the 4.10pm official close, December stood at 3,151, up 50 points for a two-day advance of 78 points. The premium to the cash market was *around 16 points,* or roughly twice the fair value premium.

There was a substantial 20-point premium to the cash *market throughout almost the* whole session, with the upward pressure only tailing off in the final hour of trading.

December reached a peak of *3,158 just after 3pm, and on* the way up broke through a number of chart resistance points, notably 3,130 and 3,150.

Traders took encouragement from the way trade sizes widened, although with the December contract dipping to 3,148 in late, screen trade, talk *of a firm platform for today's* session began to look slightly premature.

Traded option volume expanded to 44,538 contracts *from Monday's 31,163, with* FT-SE and Euro FT-SE activity accounting for just under 25,000 lots. British Gas was the busiest stock option.

■ **FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)**

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3116.0	3151.0	+52.0	3158.0	3113.0	20688	54811
Mar	3138.5	3167.5	+52.0	3168.0	3138.5	271	4539
Jun		3190.0	+54.0			0	80

■ **FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point**

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3577.0	+34.5			0	4165

■ **FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point**

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3,570					0

All open interest figures are for previous day. † Exact volume shown.

■ **FT-SE 100 INDEX OPTION (LIFFE) (*3135) £10 per full index point**

	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P	3300 C	3300 P
Nov	187	1	147½	1	98½	3	53	7½	19½	24½	4½	64	1	114	1	164
Dec	215	13	173	21½	134	32½	97½	48	68	70	46	98½	28½	132½	16	171½
Jan	239½	32½	201½	44	165	55½	131½	74	101	94	78½	88½	55	132½	40	171½
Feb	257	32½	220	44	184	58½	153	74	123	94	96½	120	77½	150	58	187
Jun†			265	85½			204	122½			152½	170½			106	227

Calls 10,061 Puts 5,926

■ **EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point**

	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P	3275 C	3275 P	3325 C	3325 P
Nov	172	1	123½	2½	76	4½	35	13½	10½	38½	2	80½	1	129	1	179
Dec	193	18	152½	27	118	40	84	58	57	80½	38	109½	20	143½	11	184
Jan	218	33½	178	45	145½	62	116½	81	90½	106	67½	132½	50½	165	38	119½
Mar			208½	59			146	104½			87½	154			61	215½
Jun†			252	93			191	128½			139	173			97½	227½

Calls 1,077 Puts 7,701 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ **EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point**

	3400	3450	3500	3550	3600	3650	3700	3750
Oct		0	0	0				

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ **Major Stocks Yesterday**

Vol. 000s | Closing price | Day's change

[illegible]

FT-SE Actuaries Share Indices — The UK Series

	Nov 15	Day's chge%	Nov 14	Nov 11	Nov 10	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3135.4	+1.3	3095.3	3075.9	3103.5	3097.5	4.08	6.99	16.89	114.68	1191.18
FT-SE Mid 250	3560.7	+0.6	3538.1	3538.5	3542.9	3421.0	3.52	5.77	20.88	120.69	1333.98
FT-SE Mid 250 ex Inv Trusts	3563.2	+0.6	3541.8	3540.3	3545.2	3418.3	3.68	6.25	19.45	125.77	1332.44
FT-SE-A 350	1570.2	+1.1	1552.4	1544.7	1556.0	1541.7	3.96	6.71	17.65	56.48	1220.52
FT-SE SmallCap	1781.31	+0.2	1777.92	1780.02	1782.13	1780.01	3.32	5.00	25.22	51.24	1387.58
FT-SE SmallCap ex Inv Trusts	1748.45	+0.1	1746.46	1748.98	1750.96	1740.61	3.53	5.57	22.96	53.25	1386.37
FT-SE-A ALL-SHARE	1553.90	+1.1	1537.31	1530.39	1540.93	1526.54	3.91	6.59	18.04	55.16	1228.48

■ **FT-SE Actuaries All-Share**

	Nov 15	Day's chge%	Nov 14	Nov 11	Nov 10	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	[illegible]										
11 Extractive Industries(4)	[illegible]										
15 Oil, Integrated(3)	[illegible]										
16 Oil Exploration & Prod(11)	[illegible]										
20 GEN MANUFACTURERS(287)	[illegible]										
30 CONSUMER GOODS(97)	[illegible]										
40 SERVICES(219)	[illegible]										
60 UTILITIES(36)	[illegible]										
69 NON-FINANCIALS(657)	[illegible]										
70 FINANCIALS(104)	[illegible]										
80 INVESTMENT TRUSTS(124)	[illegible]										
89 FT-SE-A ALL-SHARE(885)	1553.90	+1.1	1537.31	1530.39	1540.93	1526.54	3.91	6.59	18.04	55.16	1228.48

■ **Hourly movements**

	Open	10.00	11.00	12.00	13.00	14.00	15.00	15.10	16.10	High/day	Low/day
FT-SE 100	3105.2	3111.9	3118.3	3123.8	3125.4	3130.7	3135.9	3130.8	3135.4	3137.4	3104.9
FT-SE Mid 250	3544.3	3547.3	3550.5	3552.8	3554.1	3556.9	3560.5	3561.3	3560.4	3562.2	3544.0
FT-SE-A 350	1556.9	1559.8	1562.6	1564.9	1565.7	1568.0	1570.3	1568.4	1570.2	1571.0	1556.7

Time of FT-SE 100 Day's high: 3.50pm Day's low: 8.35am. FT-SE 100 1994 High: 3520.3 (2/2) Low: 2876.6 (24/6)

■ **FT-SE Actuaries 350 Industry baskets**

[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited. [illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

* Underlying security price. Premiums shown are based on settlement prices. November 15 Total contracts: 44,304 Calls: 19,650 Puts: 24,614

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	59	2	10
Other Fixed Interest	4	0	10
Mineral Extraction	94	27	75
General Manufacturers	165	78	387
Consumer Goods	47	28	112
Services	122	55	317
Utilities	27	5	12
Financials	134	36	192
Investment Trusts	198	22	247
Others	61	21	34
Totals	909	278	1396

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings November 7 | Expiry February 9
Last Dealings November 18 | Settlement February 23

Calls: Bula Res, Calluna, Eurotunnel, Explaura, Fortune Oil, Magnum Power, Medeva, Scantronic, Smurfit (J), Utd News, Waverley Mng. Puts: Signet, Smurfit (J). Puts & Calls: Bula Res, Eurotunnel, HSBC.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

	Nov 15	Nov 14	Nov 11	Nov 10	Nov 9	Yr ago	High	Low
Ordinary Share	2408.4	2379.7	2365.0	2364.1	2376.6	2347.8	2713.6	2240.6
Ord. div. yield	4.29	4.35	4.37	4.34	4.35	4.36	4.51	3.43
Earn. yld. % full	6.23	6.30	6.34	6.29	6.31	4.63	6.51	3.82
P/E ratio net	18.56	18.34	18.23	18.38	18.31	27.04	28.43	16.94
P/E ratio nil	18.11	17.89	17.78	17.93	17.86	25.06	30.80	17.09

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£22¾	+⅛	£25¼	£19⅞	8,882	5.0	ф
ANZ A$		178	+5	278¼	171	2,369	5.3	26.7
Abbey National	†N□	428	+5	523	380½	5,589	4.6	14.3
Allied Irish I£	‡†N□	249	—	314	233	1,659	5.1	9.5
Anglo Irish I£	M□	52	—	*70	50	178.9	8.3	9.5
Asahi Y	□	688	+10¼	819¼	628	16,527	0.7	ф
Banco Bil Viz Pta	□	£16⅞	+⅛	£16⅞	£14⅛	3,795	5.0	7.4
Banco Sant Pta		£27⅛	—	*£39½	£23⅞	4,894	5.3	9.5
Bk Ireland I£	‡†N□	265	—	*319	246	1,342	5.2	8.1
Bank Scotland	‡†N□	216½xd	—	247	172½	2,526	3.1	12.2
9¼pc Pf		107½xd	+¼	141½	106	107.5	10.8	-
9⅜pc Pf		112½xd	+¼	148½	111¼	112.5	10.8	-
Barclays	‡†N□	612	+8½	649	487	9,975	3.4	18.9
Dai Ichi Kan Y	□	£11	—	£12⅞	£10⅞	34,326	0.5	-
Deutsche DM	□	£311⅞	+1⅞	£344¼	£270⅞	14,820	2.2	-
Espirito Santo	□	£9⅞	—	*£13⅞	£7⅞	185.8	4.4	4.4
First Nat Fin	N□	68	+½	*90	60	111.4	2.8	-
6.3pc Cv Pf		71	—	*90	70	4.77	11.1	-
7pc Cv Pf		124	-1	177	123	58.8	7.1	-
Fuji Bank Y	□	1312¼	+23¼	1549¼	1152½	38,618	0.4	ф
HSBC HK	†N□	754xd	+22½	1133	680	13,195	4.1	10.9
HSBC (75p Shs)	†N□	758xd	+22	1113	660	6,382	4.1	10.9
Lloyds	†N□	588	+7½	680	519	7,828	4.9	11.6
Mitsubishi Y	□	£14⅞	+⅞	£16⅞	£13⅞	40,862	0.4	ф
Mits Tst & Bk Y	□	942¼	-¼	1162¼	687½	10,098	0.6	13.2
Mitsui Tst & Bk Y	□	682½	+18¼	879	514	7,939	0.8	22.0
Nat Aust A$	†	508	+9	620¼	472	6,773	5.6	10.6
NatWest	†N□	527	+5½	622	421	9,017	4.6	9.8
Ottomane FFr		£21¼	—	£33	£21¼	108.2	6.8	ф
Ryl Bk Scotland	‡†N□	448	+1½	528	377½	3,588	3.3	20.3
Sakura Y	□	£9⅞	+⅛	£9⅞	£8⅛	27,883	0.7	51.3
Sanwa Y	□	£12⅞	+⅛	£15⅞	£11⅞	35,829	0.5	-
Standard Chartd	†N□	297	+10	*368¼	223	2,869	2.7	10.2
7 3/8pc Prf		85¾	+¼	108½	82¼	85.8	10.8	-
Sumitomo Y	□	£11⅞	+⅞	£16½	£10⅞	39,880	0.5	23.8
Sumitomo Tst Y	□	910½	+22	1148½	825	10,082	0.7	ф
TSB	†N□	230	+3	297	187	3,521	4.4	11.6
Tokai Y	□	£7⅞	+⅛	£9	£6⅞	15,157	0.8	46.0
Toyo Tst & Bk Y	□	675½	+7¼	852	586¼	5,308	0.7	58.9
Westpac A$		201	+1¼	260	194	3,856	2.7	ф
Yasuda Tst Bk Y	‡□	603½	+3¼	856	442	5,553	1.0	43.9

BREWERIES

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Ascot Hldgs	□	2	—	10¼	1½	7.42	-	-
Bass	†N□	541	-2	619	485	4,722	4.8	14.1
Boddington	†N□	254	+1	299	248	308.1	4.1	13.7
Burtonwood	†N	180xd	—	196	168	37.4	3.5	15.0
Eldridge Pope A	‡†N	165	—	181	142	32.1	2.8	22.9
Fosters A$		54	-1	68	46¼	1,738	5.3	ф
Fuller STA	‡‡N	377	—	458	375	76.9	2.6	15.6
Gibbs Mew	‡‡N	435	—	*498	348¼	46.6	2.5	15.6
Greenalls	‡†N□	415	+7	511	393	867.4	3.8	15.9
Greene King	N□	541	+2	684	452	228.8	3.0	15.1
Grosvenor Inns	‡‡N	143	—	*185	124	19.0	4.2	ф
Holt (J)	†N	3448	—	3773	3125	103.4	1.8	19.0
[illegible]		[illegible]						

CHEMICALS

	Notes	Price	+ or -
AGA SKr	□	68½	-½
Akzo Fl	□	£73⅞	+⅛
Allied Colloids	†N□	129	-1
Amber Ind	N	780	—
BASF DM	□	£129⅞	+⅛
BOC	‡ɑN□	729	+10
BTP	‡N□	285	+1
Bayer DM	□	£140⅞	-⅛
Brent	N□	108½xd	-1½
British Vita	†N□	225	+3
Cambridge Iso $	‡	19	—
Canning (W)	‡N□	182xd	—
Carrentone	‡N	51	—
Warrants		17	—
Courtaulds	N□	406	+5
Croda	†N□	350xd	+1
Doeflex	‡N	134xd	-1
Engelhard $		£13⅞	+⅛
European Colour	‡†N□	65	—
Gibbon	‡N	138	—
Hickson	‡N□	148xd	—
Hoechst DM	□	£134⅛	—
Halliday Chemical	†ɑN□	222	—
ICI	N□	789½	+18½
Inspec	L□	206	—
Kalon	‡†N□	144½	—
Laporte	‡†N□	727xd	+10
MTM	‡□	66	+3
Manders	N□	304	—
McLeod Russel	N□	107	—
Metrotect Inds	‡N□	73	—
Perstorp SKr	□	£23⅛	-⅛
Porvair	‡†N	298	—
[illegible]		[illegible]	

DISTRIBUTORS

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1994 high	low	Yld Gr's	NAV	Dis or Pm(-)
Perpetual Japan	□	102½	—	120	89			
Warrants	□	45	+½	88	43	-	97.5	-4.9
Personal Assets		£87xd	—	£96	£79	-	-	-
Pilot Inv	‡N□	125	—	153	124	2.0	130.4	1.2
Warrants	□	43	+½	89	40½	1.8	125.0	-4.9
Piper Euro Smlr	□	92	—	96	91	-	-	-
Warrants	□	40	—	43	33	-	88.7	-2.5
Primadona	N	273	—	293	251	-	-	-
Ptarmigan Intl	‡♣N	227	+1	*276	206	2.1	297.6	8.3
Warrants		82	—	140	78	1.9	241.9	6.2
RIT Capital	♣N□	183	+1	189	164½	-	-	-
2½pc Cv Ln 2000		£180½	+½	£186½	£170½	1.0	223.4	18.1
Radiotrust		70	—	89	69	1.4	-	-
Rights & Iss Inc	♣N	156	—	164	153	-	70.9	1.1
Cap	N	485	—	545	440	7.3	-	-
Riv & Merc Am Inc	N	104	—	121	104	2.3	544.2	10.9
Cap	□	29	—	38	29	9.5	-	-
Warrants		13½	—	17	13	-	40.2	27.9
Riv & Mer Ext	FN□	93xd	—	147	91	-	-	-
Warrants		17	—	49	14	10.5	101.0	7.9
Zero Div Pf		109	-½	118½	108	-	-	-
Riv & Mer Geared	N	85xd	—	116	85	-	-	-
Prtd Cap 1999		27	+½	36	23	11.1	-	-
Riv & Merc Smllr	N□	122	—	170	118	-	33.8	30.1
Warrants		35	—	77	31	4.2	133.5	8.6
Riv & Merc Tst Inc	N□	113	—	127	112	-	-	-
Cap	□	119	+1	150	118	10.2	-	-
Warrants		22½	—	40	22	-	180.9	37.7
Do. Stpnd Prf	N	151	+½	163	144	-	-	-
River Plate Inc	N□	108	—	113	108	4.9	-	-
Cap	□	75	—	118	75	10.3	-	-
Warrants		2	—	11	2	-	123.9	39.5
Zero Div Pf		86¼	—	86¼	83¼	-	-	-

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¼	+1⅛	£31¼	£19½	2,097	2.4	22.9
Barlow	&Z	£25⅝	+⅛	£25⅞	£23⅛	1,017	0.6	-
Gold Flds Prop R		118m	—	128	75	12.1	7.9	ϕ
MK Props		98	+3	98	85	3.94	12.3	-
SASOL	♥	523	—	582	280	3,083	2.7	-
SA Brews	†	£15¼	-⅛	£16⅞	£10	4,232	1.9	23.7
Tiger Oats		713	—	838	538	1,072	2.1	ϕ
Tongaat-Hulett	h	675	—	*695	356¼	615.2	1.9	18.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ϕ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other offical estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xℝ ex capital distribution.

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BERMUDA (SIB RECOGNISED)

Fidelity Money Funds
Pembroke Hall, Pembroke, Bermuda

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lazard Freres Asset Management (CI) Ltd
PO Box 275, St Peter Port, Guernsey, CI 0481 710461

Lazard Fund Mngrs (Channel Islands) Ltd
PO Box 275, St Peter Port, Guernsey, C.I. 0481 710461

Lazard Select Investment Trust Ltd

Lloyds Intl Money Market Fund Ltd
Samia Hse, Le Truchot, St Peter Port 0481 724983

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 0481 722863

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey 0481 726268

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

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ISLE OF MAN (SIB RECOGNISED)

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LUXEMBOURG (REGULATED)(**)

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CURRENCIES AND MONEY

MARKETS REPORT

Fed keeps European markets on tenterhooks

Currency markets in Europe spent a fruitless vigil waiting for the announcement of a shift in interest rates from the US Federal Reserve, which finally emerged well after the end of the European market day, *writes Philip Gawith.*

In the event, the action by the Fed at its Federal Open Markets Committee meeting in Washington, was greeted by US analysts as surprisingly aggressive.

While markets during the day had been setting their expectations in the range of an increase in the federal funds rate of about 50 basis points to 5.25 per cent, the Fed opted for a 0.75 per cent rise in both the discount rate and in the Fed funds rate. This action was seen as bolstering the outlook for the US dollar, as analysts said it quelled the notion that the Fed was behind the curve on US inflation. "This is a good move by the Fed", said Scott Pardee, chairman at Yamaichi International (America) Inc. "It has raised interest rates to levels that will have a constraining effect on the economy."

The dollar was firm ahead of the outcome of the meeting, closing in London at DM1.5454, from DM1.5453. Against the yen, it closed at Y98.225 from Y98.435.

Before the meeting, the Fed had raised rates five times this year: by 25 basis points in February, March and April, and by 50 basis points in May and August. This took the Fed funds rate from 3 per cent to 4.75 per cent, while the discount rate was increased by 50 basis points in each of May and August, taking it to 4 per cent.

The dominant view among observers was that bonds and the dollar would fall unless rates were raised by 50 basis points, and accompanied by a strong statement suggesting further increases were in the pipeline.

Looking back at Fed tightenings this year, Mr Brian Durrant, economist at brokers GNI, noted that $/DM typically jumps 0.75 - 1 pfennigs on the news, but subsequently surrenders these gains within three days.

■ The Irish punt has shown some weakness in recent days, as uncertainty about the survival of the ruling coalition has raised the prospect of an early general election. The punt closed at £1.0187 against sterling, from £1.0189. For the past few months it had traded in the £1.01-1.013 range.

But Mr Jim Power, senior economist at the Bank of Ireland in Dublin, said concerns about political instability were "totally overdone". Although elections were by no means assured, Mr Power said that even if there was to be a new government, "we can be guaranteed that economic policy will be virtually identical to what we have had so far."

He said no politician would have the nerve to challenge the economic policy consensus, which was "largely dictated by the Maastricht convergence criteria."

Although the punt and sterling track each other closely, Mr Power said the recent decline in sterling had not been a factor in the weaker punt. Rather, this reflected the political uncertainty, and the fact that interest rate differentials across the yield curve had moved too much in favour of sterling.

■ The Swedish krona slipped back towards the level it was at before the Sunday referendum which voted in favour of joining the EU. After rising towards SKr4.65, from SKr4.75, against the D-Mark, in the first bout of post-election, the krona has since given back most of its gains. It closed in London at SKr4.736, from SKr4.712.

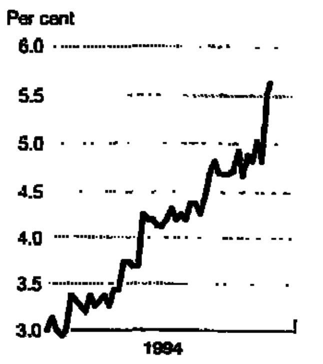
Elsewhere in Europe the French franc recovered some of its recent losses to finish at FFr3.437 against the D-Mark, from FFr3.440. Mr Malcolm Barr, international economist at Chemical Bank in London, said recent franc weakness, on alleged uncertainty surrounding next year's presidential elections, had been exaggerated.

"Even a Delors victory does not have much policy implication," said Mr Barr. From a financial market perspective, he said, there was little to choose between the likely candidates.

■ In its daily activities the Bank of England cleared, at established rates, a £500m shortage in UK money markets. Overnight money traded between 3¼ and 5 per cent.

Sterling weakened slightly against the D-Mark and the dollar, finishing at $1.5826, from $1.5849 against the latter. It has now fallen nearly 4 per cent from a high around $1.64 at the beginning of the month.

US federal funds rate



Source: Datastream

■ **Pound in New York**

Nov 15	- Close -	- Prev. close -
£ spot	1.5880	1.5888
1 mth	1.5857	1.5865
3 mth	1.5851	1.5858
1 yr	1.5772	1.5780

■ **OTHER CURRENCIES**

Nov 15	£	$
Hungary	173.045 - 173.230	109.370 - 109.470
Iran	2800.00 - 2803.00	1748.00 - 1750.00
Kuwait	0.4725 - 0.4741	0.2987 - 0.2995
Poland	37332.0 - 37398.0	23595.0 - 23625.0
Russia	4989.93 - 4994.83	3153.00 - 3158.00
U.A.E.	5.8022 - 5.8139	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Nov 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2158	-0.0319	080 - 235	17.2656	17.2080	17.2114	0.3	17.1996	0.4	-	-	115.1
Belgium	(BFr)	50.3251	-0.0272	050 - 441	50.4620	50.3060	50.2951	0.7	50.2251	0.8	50.0851	0.5	116.9
Denmark	(DKr)	9.5610	-0.0067	565 - 656	9.5782	9.5565	9.5586	0.3	9.5733	-0.5	9.5629	0.1	116.9
Finland	(FM)	7.4339	+0.053	237 - 438	7.4540	7.3840	-	-	-	-	-	-	89.1
France	(FFr)	8.4039	-0.0203	991 - 087	8.4405	8.3891	8.4018	0.3	8.3941	0.5	8.326	0.9	109.8
Germany	(DM)	2.4456	-0.0035	445 - 467	2.4528	2.4445	2.4442	0.7	2.4401	0.9	2.4078	1.5	126.1
Greece	(Dr)	376.964	-0.163	564 - 363	377.578	376.564	-	-	-	-	-	-	-
Ireland	(I£)	1.0187	-0.0002	181 - 193	1.0204	1.0181	1.0185	0.2	1.0182	0.2	1.0199	-0.1	104.6
Italy	(L)	2507.55	-6.9	620 - 890	2516.73	2506.20	2513.15	-2.7	2524.55	-2.7	2575.05	-2.7	74.2
Luxembourg	(LFr)	50.3251	-0.0272	050 - 441	50.4620	50.3060	50.2951	0.7	50.2251	0.8	50.0851	0.5	116.9
Netherlands	(Fl)	2.7420	-0.0045	410 - 430	2.7533	2.7410	2.7406	0.6	2.7362	0.8	2.7017	1.5	120.8
Norway	(NKr)	10.7044	+0.0015	996 - 091	10.7362	10.6491	10.7044	0.0	10.7061	-0.1	10.705	0.0	85.6
Portugal	(Es)	249.537	-0.085	402 - 671	250.107	249.487	251.267	-8.3	254.447	-7.9	-	-	-
Spain	(Pta)	203.477	-0.254	392 - 561	204.028	203.392	203.897	-1.9	204.472	-2.0	207.087	-1.8	85.8
Sweden	(SKr)	11.5851	+0.04	766 - 936	11.6147	11.5005	11.6041	-2.0	11.6466	-2.1	11.7911	-1.8	76.5
Switzerland	(SFr)	2.0566	-0.0009	553 - 578	2.0693	2.0541	2.0535	1.8	2.046	2.1	2.0037	2.6	121.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.1
Ecu	-	1.2836	-0.0025	830 - 841	1.2880	1.2830	1.2837	0.0	1.2838	0.0	1.2781	0.4	-
SDR†	-	0.923899	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5827	-0.0025	822 - 831	1.5905	1.5822	-	-	-	-	-	-	-
Brazil	(R)	1.3199	-0.0051	180 - 217	1.3237	1.3180	-	-	-	-	-	-	-
Canada	(C$)	2.1565	+0.0061	556 - 573	2.1641	2.1549	2.1555	0.6	2.1542	0.4	2.1528	0.2	86.7
Mexico	(New Peso)	5.4611	+0.0005	570 - 651	5.4856	5.4570	-	-	-	-	-	-	-
USA	($)	1.5826	-0.0023	822 - 829	1.5905	1.5822	1.5823	0.2	1.5816	0.2	1.5741	0.5	62.2
Pacific/Middle East/Africa													
Australia	(A$)	2.1007	-0.009	995 - 018	2.1150	2.0995	2.1028	-1.2	2.1056	-0.9	2.1135	-0.9	-
Hong Kong	(HK$)	12.2307	-0.0188	272 - 342	12.2919	12.2272	12.2217	0.9	12.2174	0.4	12.1722	0.5	-
India	(Rs)	49.6486	-0.0885	336 - 635	49.8900	49.6336	-	-	-	-	-	-	-
Japan	(Y)	155.446	-0.548	372 - 520	156.370	155.372	154.986	3.5	153.981	3.8	148.856	4.2	190.3
Malaysia	(M$)	4.0569	-0.0035	552 - 586	4.0766	4.0552	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5511	-0.0048	491 - 531	2.5624	2.5491	2.5557	-2.2	2.565	-2.2	2.5849	-1.3	-
Philippines	(Peso)	38.5352	+0.0221	310 - 393	38.6000	38.1310	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9354	-0.0089	337 - 370	5.9649	5.9337	-	-	-	-	-	-	-
Singapore	(S$)	2.3295	-0.0081	282 - 308	2.3396	2.3282	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5718	-0.0122	693 - 742	5.6014	5.5693	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4964	-0.0334	791 - 136	6.5155	6.4791	-	-	-	-	-	-	-
South Korea	(Won)	1260.27	-2.98	991 - 062	1266.52	1259.91	-	-	-	-	-	-	-
Taiwan	(T$)	41.4803	-0.0342	687 - 918	41.5862	41.4687	-	-	-	-	-	-	-
Thailand	(Bt)	39.5954	-0.0351	708 - 200	39.7700	39.5708	-	-	-	-	-	-	-

†SDR rates for Nov 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8785	-0.004	760 - 810	10.8810	10.8445	10.8785	0.0	10.8753	0.0	10.8035	0.7	104.3
Belgium	(BFr)	31.8000	+0.03	950 - 050	31.8050	31.7050	31.81	-0.4	31.7475	0.7	31.59	0.7	105.9
Denmark	(DKr)	6.0415	+0.0047	400 - 430	6.0420	6.0173	6.0437	-0.4	6.048	-0.4	6.0735	-0.5	105.3
Finland	(FM)	4.6970	+0.0403	920 - 020	4.7033	4.6515	4.6953	0.4	4.6925	0.4	4.681	0.1	83.9
France	(FFr)	5.3104	-0.0049	085 - 122	5.3122	5.2915	5.3117	-0.3	5.3077	0.2	5.2929	0.3	106.0
Germany	(DM)	1.5454	+0.0001	450 - 457	1.5480	1.5405	1.5449	0.4	1.5428	0.7	1.5283	1.1	107.0
Greece	(Dr)	238.200	+0.25	000 - 400	238.400	237.240	238.47	-1.4	239.025	-1.4	241.275	-1.3	68.4
Ireland	(I£)	1.5535	-0.0021	529 - 540	1.5604	1.5525	1.5534	0.0	1.5536	0.0	1.5405	0.8	-
Italy	(L)	1584.50	-2	400 - 500	1565.00	1579.00	1588.25	-2.8	1596.2	-2.7	1629.5	-2.8	74.5
Luxembourg	(LFr)	31.8000	+0.03	950 - 050	31.8050	31.7050	31.81	-0.4	31.7475	0.7	31.59	0.7	105.9
Netherlands	(Fl)	1.7327	-0.0002	324 - 329	1.7335	1.7267	1.7322	0.3	1.7301	0.6	1.7164	0.9	105.6
Norway	(NKr)	6.7640	+0.011	625 - 655	6.7720	6.7123	6.7707	-1.2	6.7845	-1.2	6.811	-0.7	95.8
Portugal	(Es)	157.680	+0.18	630 - 730	157.730	156.370	158.205	-4.0	159.33	-4.2	162.93	-3.3	95.2
Spain	(Pta)	128.575	+0.03	550 - 600	128.660	128.200	128.83	-2.4	122.595	-12.5	131.525	-2.3	80.8
Sweden	(SKr)	7.3206	+0.0362	168 - 243	7.3243	7.2448	7.3339	-2.2	7.3591	-2.1	7.4656	-2.0	82.3
Switzerland	(SFr)	1.2995	+0.0013	990 - 000	1.3025	1.2932	1.2977	1.7	1.2934	1.9	1.2718	2.1	106.2
UK	(£)	1.5826	-0.0023	822 - 829	1.5905	1.5822	1.5823	0.2	1.5816	0.2	1.5741	0.5	88.6
Ecu	-	1.2330	-0.0006	327 - 332	1.2360	1.2327	1.2328	0.2	1.2323	0.2	1.232	0.1	-
SDR†	-	1.46900	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0001	-0.0001	000 - 001	1.0001	1.0000	-	-	-	-	-	-	-
Brazil	(R)	0.8340	-0.002	330 - 350	0.8350	0.8330	-	-	-	-	-	-	-
Canada	(C$)	1.3627	+0.0059	624 - 629	1.3635	1.3585	1.3629	-0.1	1.3621	0.2	1.3677	-0.4	83.6
Mexico	(New Peso)	3.4508	+0.0023	490 - 526	3.4526	3.4505	3.4518	-0.3	3.4536	-0.3	3.461	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.5
Pacific/Middle East/Africa													
Australia	(A$)	1.3274	-0.0038	270 - 278	1.3319	1.3270	1.3276	-0.2	1.3283	-0.3	1.3357	-0.6	87.8
Hong Kong	(HK$)	7.7285	-0.0004	280 - 290	7.7290	7.7280	7.7266	0.3	7.7267	0.1	7.734	-0.1	-
India	(Rs)	31.3725	-0.01	700 - 750	31.3825	31.3700	31.4575	-3.3	31.6025	-2.9	-	-	-
Japan	(Y)	98.2250	-0.2	000 - 500	98.4300	98.1000	97.975	3.1	97.375	3.5	94.59	3.7	150.4
Malaysia	(M$)	2.5635	+0.0016	630 - 640	2.5650	2.5614	2.5543	4.3	2.543	3.2	2.5165	-2.1	-
New Zealand	(NZ$)	1.6120	-0.0006	111 - 129	1.6145	1.6111	1.6129	-0.7	1.6148	-0.7	1.6201	-0.5	-
Philippines	(Peso)	24.3500	+0.05	000 - 000	24.1000	24.6000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	503 - 507	3.7507	3.7503	3.7518	-0.4	3.7559	-0.6	3.7745	-0.6	-
Singapore	(S$)	1.4720	-0.0029	715 - 725	1.4740	1.4697	1.4697	1.9	1.4649	1.9	1.4475	1.7	-
S Africa (Com.)	(R)	3.5208	-0.0025	200 - 215	3.5215	3.5200	3.5354	-5.0	3.567	-5.2	3.7261	-5.8	-
S Africa (Fin.)	(R)	4.1050	-0.015	950 - 150	4.1150	4.0850	4.1275	-6.6	4.175	-6.8	4.41	-7.4	-
South Korea	(Won)	796.350	-0.7	300 - 400	796.900	796.300	799.35	-4.5	802.85	-3.3	821.35	-3.1	-
Taiwan	(T$)	26.2110	+0.0172	095 - 125	26.2310	26.2080	26.231	-0.9	26.271	-0.9	-	-	-
Thailand	(Bt)	25.0200	+0.015	100 - 300	25.0300	25.0000	25.0925	-3.5	25.22	-3.2	25.7	-2.7	-

†SDR rate for Nov 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 14. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¾	4⅝	5⅛	5½	6¼	7.40	4.50	-
week ago	4¾	4⅝	5¼	5⅜	6⅜	7.40	4.50	-
France	5⅜	5⅞	5¾	5⅞	6¼	5.00	-	5.75
week ago	5⅜	5⅞	5¾	5⅞	6⅜	5.00	-	5.75
Germany	4.93	4.95	5.15	5.25	5.60	6.00	4.50	4.85
week ago	4.88	4.95	5.15	5.25	5.60	6.00	4.50	4.85
Ireland	5⅛	5¼	5¾	6⅛	7⅛	-	-	6.25
week ago	5⅛	5¼	5¾	6⅛	7⅛	-	-	6.25
Italy	8⅝	8¼	8⅝	8⅝	9¾	-	7.50	8.20
week ago	8¼	8¼	8¼	9⅛	10⅛	-	7.50	8.20
Netherlands	4.84	5.03	5.23	5.34	5.75	-	5.25	-
week ago	4.84	5.03	5.24	5.37	5.77	-	5.25	-
Switzerland	3¾	3⅞	3⅞	4⅛	4½	6.625	3.50	-
week ago	3¾	3⅞	4	4⅛	4½	6.625	3.50	-
US	5⅛	5¾	5¾	6⅛	6⅝	-	4.00	-
week ago	4¾	5¾	5¾	6⅛	6⅝	-	4.00	-
Japan	2⅛	2¼	2⅛	2⅛	2¾	-	1.75	-
week ago	2¼	2¼	2⅛	2⅛	2¾	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅝	6⅛	6¾	-	-	-
week ago	-	5⅞	5⅝	6⅛	6¾	-	-	-
US Dollar CDs	-	5.26	5.58	5.93	6.55	-	-	-
week ago	-	5.26	5.49	5.87	6.53	-	-	-
SDR Linked Ds	-	3¾	3⅞	3¾	4	-	-	-
week ago	-	3¾	3⅞	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅛; 3 mths: 5⅝; 6 mths: 6⅛; 1 year: 6¾. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4$\frac{15}{16}$ - 4$\frac{13}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5¼ - 5⅛	5½ - 5⅜	6⅛ - 6
Danish Krone	5½ - 5¼	5¾ - 5½	5⅞ - 5⅝	6¼ - 6	6⅝ - 6⅜	7¼ - 7
D-Mark	5$\frac{1}{16}$ - 4$\frac{15}{16}$	5 - 4⅞	5 - 4⅞	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5¼ - 5⅛	5⅝ - 5½
Dutch Guilder	5 - 4⅞	5$\frac{1}{16}$ - 4$\frac{15}{16}$	5$\frac{1}{16}$ - 5	5¼ - 5$\frac{3}{16}$	5⅜ - 5¼	5¾ - 5⅝
French Franc	5⅜ - 5¼	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5⅝ - 5½	5⅞ - 5¾	6⅜ - 6¼
Portuguese Esc.	8⅞ - 8⅝	8⅞ - 8⅝	9$\frac{3}{16}$ - 9$\frac{1}{16}$	10$\frac{1}{16}$ - 9$\frac{13}{16}$	10¼ - 10	10½ - 10¼
Spanish Peseta	7½ - 7$\frac{3}{16}$	7$\frac{9}{16}$ - 7⅜	7$\frac{9}{16}$ - 7$\frac{7}{16}$	8 - 7⅞	8⅜ - 8$\frac{3}{16}$	9⅛ - 9
Sterling	5⅛ - 4⅞	5$\frac{9}{16}$ - 5$\frac{7}{16}$	5⅝ - 5$\frac{7}{16}$	6⅛ - 6	6⅝ - 6½	7⅜ - 7¼
Swiss Franc	3$\frac{7}{16}$ - 3$\frac{5}{16}$	3½ - 3⅜	3⅝ - 3½	3$\frac{15}{16}$ - 3$\frac{13}{16}$	4⅛ - 4	4$\frac{9}{16}$ - 4$\frac{7}{16}$
Can. Dollar	4$\frac{15}{16}$ - 4¾	5$\frac{3}{16}$ - 5	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5⅝ - 5½	6$\frac{5}{16}$ - 6$\frac{3}{16}$	7⅛ - 7
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{15}{16}$ - 5$\frac{13}{16}$	6⅛ - 6	6¾ - 6⅝
Italian Lira	9 - 7½	8⅜ - 8¼	8¼ - 8⅛	8$\frac{9}{16}$ - 8$\frac{7}{16}$	9 - 8⅞	9¾ - 9⅝
Yen	2¼ - 2$\frac{3}{16}$	2$\frac{5}{16}$ - 2¼	2$\frac{5}{16}$ - 2¼	2⅜ - 2$\frac{5}{16}$	2½ - 2$\frac{7}{16}$	2$\frac{27}{32}$ - 2$\frac{25}{32}$
Asian $Sing	2⅞ - 2¾	3$\frac{1}{16}$ - 2$\frac{15}{16}$	3¼ - 3⅛	3½ - 3⅜	3¾ - 3⅝	4⅛ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.27	94.27	+0.01	94.28	94.26	5,668	49,067
Mar	93.84	93.84	+0.01	93.86	93.83	5,871	38,154
Jun	93.45	93.47	+0.03	93.47	93.44	4,853	29,250
Sep	93.14	93.16	+0.04	93.16	93.12	2,564	20,887

■ **THREE MONTH EURODOLLAR** (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.99	93.96	-0.01	93.99	93.95	34	2476
Mar		93.47	+0.01			0	1386
Jun		92.98	+0.02			0	354
Sep		92.59	+0.01			0	81

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.85	94.85	+0.01	94.85	94.83	13743	139679
Mar	94.67	94.67	+0.02	94.68	94.64	26941	172516
Jun	94.29	94.35	+0.05	94.36	94.29	26767	119003
Sep	93.94	93.96	+0.04	93.96	93.92	10734	83489

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	91.28	91.18	-0.05	91.28	91.13	6404	32903
Mar	90.72	90.61	-0.08	90.73	90.60	4220	34608
Jun	90.15	90.04	-0.09	90.15	90.03	1404	15994
Sep	89.70	89.61	-0.07	89.70	89.53	898	21045

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.98	95.93	-0.04	95.98	95.91	2140	19350
Mar	95.74	95.67	-0.06	95.75	95.66	7122	20367
Jun	95.40	95.36	-0.04	95.40	95.34	813	5093
Sep	95.07	95.02	-0.02	95.07	95.01	480	2444

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.00	94.02	+0.04	94.05	94.00	1264	8419
Mar	93.66	93.67	+0.04	93.70	93.65	901	7482
Jun	93.17	93.18	+0.04	93.20	93.17	313	4223
Sep	92.67	92.70	+0.04	92.71	92.67	83	2326

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.00	16.70	4.858	2.023	4981	5.448	21.26	495.7	404.1	23.01	4.085	1.987	4.284	3.145	308.8	2.551
Denmark	(DKr)	52.64	10	8.790	2.557	1.065	2622	2.868	11.19	261.0	212.7	12.11	2.150	1.046	2.255	1.656	162.5	1.343
France	(FFr)	59.89	11.38	10	2.909	1.211	2983	3.263	12.73	296.9	242.0	13.78	2.446	1.190	2.565	1.884	184.9	1.528
Germany	(DM)	20.58	3.910	3.437	1	0.416	1025	1.121	4.375	102.0	83.19	4.736	0.841	0.409	0.882	0.647	63.56	0.525
Ireland	(I£)	49.44	9.392	8.255	2.402	1	2463	2.694	10.51	245.1	199.8	11.38	2.020	0.982	2.118	1.555	152.7	1.261
Italy	(L)	2.008	0.381	0.335	0.098	0.041	100.	0.109	0.427	9.952	8.113	0.462	0.082	0.040	0.086	0.063	6.199	0.051
Netherlands	(Fl)	18.36	3.487	3.065	0.892	0.371	914.3	1	3.902	90.99	74.18	4.223	0.750	0.365	0.786	0.577	56.67	0.468
Norway	(NKr)	47.04	8.936	7.854	2.285	0.951	2343	2.563	10	233.2	190.1	10.82	1.921	0.935	2.015	1.479	145.2	1.200
Portugal	(Es)	20.17	3.832	3.368	0.980	0.408	1005	1.099	4.289	100.	81.52	4.641	0.824	0.401	0.864	0.634	62.28	0.515
Spain	(Pta)	24.74	4.701	4.132	1.202	0.500	1233	1.348	5.261	122.7	100.	5.693	1.011	0.492	1.060	0.778	76.40	0.631
Sweden	(SKr)	43.46	8.256	7.257	2.111	0.879	2165	2.368	9.240	215.5	175.6	10	1.775	0.864	1.862	1.367	134.2	1.109
Switzerland	(SFr)	24.48	4.650	4.088	1.189	0.495	1219	1.334	5.204	121.4	98.93	5.632	1	0.486	1.049	0.770	75.58	0.625
UK	(£)	50.33	9.561	8.404	2.445	1.018	2507	2.742	10.70	249.5	203.4	11.58	2.056	1	2.156	1.583	155.4	1.284
Canada	(C$)	23.34	4.435	3.898	1.134	0.472	1163	1.272	4.963	115.7	94.34	5.371	0.954	0.464	1	0.734	72.08	0.596
US	($)	31.79	6.040	5.309	1.545	0.643	1584	1.732	6.759	157.6	128.5	7.315	1.299	0.632	1.362	1	98.17	0.811
Japan	(Y)	32.39	6.153	5.408	1.573	0.655	1613	1.764	6.885	160.6	130.9	7.452	1.323	0.644	1.387	1.019	100.	0.826
Ecu		39.20	7.446	6.545	1.904	0.793	1952	2.136	8.333	194.3	158.4	9.019	1.601	0.779	1.679	1.233	121.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6478	0.6481	+0.0004	0.6493	0.6472	49,119	87,068
Mar	0.6488	0.6492	+0.0003	0.6500	0.6488	1,169	6,726
Jun	-	0.6509	-0.0062	-	-	12	1,308

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.0200	1.0206	+0.0001	1.0224	1.0191	25,826	69,275
Mar	1.0295	1.0293	+0.0002	1.0300	1.0291	765	8,461
Jun	1.0400	1.0400	+0.0003	1.0400	1.0400	3	715

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7725	0.7721	+0.0002	0.7745	0.7717	29,363	46,467
Mar	0.7769	0.7756	+0.0001	0.7772	0.7755	429	2,539
Jun	0.7810	0.7810	+0.0008	0.7810	0.7810	45	240

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5850	1.5864	-0.0002	1.5894	1.5850	12,234	47,820
Mar	1.5860	1.5860	+0.0004	1.5870	1.5852	186	728
Jun	-	1.5840	-	1.5840	-	2	17

UK INTEREST RATES

LONDON MONEY RATES

Nov 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5 - 3¾	5¼ - 5	5⅞ - 5¾	6⅛ - 6	6½ - 6⅜	7⅜ - 7¼
Sterling CDs	-	-	5¾ - 5⅝	6 - 5⅞	6½ - 6⅜	7¼ - 7⅛
Treasury Bills	-	-	5⅝ - 5½	5⅞ - 5¾	-	-
Bank Bills	-	-	5⅝ - 5½	5⅞ - 5¾	-	-
Local authority deps.	4⅞ - 4⅝	5¼ - 5⅛	5¾ - 5⅝	6 - 5⅞	6½ - 6⅜	7⅜ - 7¼
Discount Market deps	5 - 4	5¼ - 4⅞	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash 1pc.
Ave. tender rate of discount 5.6489pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1994. Agreed rate for period Nov 26, 1994 to Dec 25, 1994, Schemes II & III 7.32pc. Reference rate for period Oct 1, 1994 to Oct 31, 1994, Schemes IV & V 6.368pc. Finance House Base Rate 6pc from Nov 1, 1994

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.60	93.59	+0.01	93.63	93.58	14567	139720
Mar	92.77	92.79	+0.04	92.82	92.76	20556	75818
Jun	92.19	92.21	+0.05	92.23	92.17	4751	58495
Sep	91.77	91.78	+0.04	91.79	91.75	4947	57817

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.17	0.05	0.03	0.05	0.76	1.35
9375	0.05	0.02	0.03	0.21	0.98	1.57
9400	0.01	0.01	0.02	0.42	1.21	1.81

Est. vol. total, Calls 8445 Puts 1676. Previous day's open int., Calls 348557 Puts 211880

EMS EUROPEAN CURRENCY UNIT RATES

Nov 15	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14634	-0.00039	-2.30	5.68	-
Belgium	40.2123	39.3916	-0.0125	-2.04	5.40	15
Germany	1.94964	1.91771	-0.00014	-1.79	5.14	-
Ireland	0.808628	0.797085	+0.001175	-1.43	4.75	10
Denmark	7.43679	7.47657	+0.00217	0.56	2.66	-4
France	6.53883	6.58037	-0.00529	0.64	2.60	-5
Portugal	192.854	195.465	+0.2	1.36	1.87	-9
Spain	154.250	159.287	+0.025	3.25	0.00	-23
NON ERM MEMBERS						
Greece	264.513	294.822	-0.003	11.46	-7.36	-
Italy	1793.19	1962.86	-1.8	9.46	-5.87	-
UK	0.786749	0.781925	+0.001620	-0.61	3.69	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.525	6.17	6.45	6.45	0.11	0.43	0.43
1.550	4.00	4.48	4.48	0.42	0.86	1.29
1.575	2.27	2.87	2.87	1.13	1.80	1.80
1.600	1.06	1.72	1.72	2.41	3.03	3.03
1.625	0.41	0.93	0.93	4.20	4.71	4.71
1.650	0.11	0.45	0.45	6.39	6.71	6.71

Previous day's vol., Calls 23,813 Puts 18,558 . Prev. day's open int., Calls 376,744 Puts 325,226

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	93.98	93.95	-0.02	93.99	93.94	84,287	417,083
Mar	93.48	93.46	-0.01	93.49	93.44	58,878	422,932
Jun	92.99	92.96	-0.02	92.99	92.94	36,164	304,314

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.56	94.51	-0.03	94.55	94.51	853	17,310
Mar	94.04	94.01	-0.01	94.04	94.00	1,050	10,500
Jun	-	93.62	+0.01	-	-	270	5,910

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
9450	0.38	0.29	0.32	0.02	0.04	0.09
9475	0.13	0.08	0.10	0.13	0.03	0.16
9500	0.02	0.03	0.03	0.17	0.35	0.36
9525	0	0	0.01	0.40	0.58	0.60

Est. vol. total, Calls 5120 Puts 4926. Previous day's open int., Calls 218921 Puts 201316

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9575	0.20	0.13	0.11	0.02	0.21	0.50
9600	0.04	0.05	0.05	0.11	0.38	0.70
9625	0.01	0.02	0.03	0.33	0.60	0.91

Est. vol. total, Calls 0 Puts 40. Previous day's open int., Calls 2819 Puts 1765

BASE LENDING RATES

	%		%
Adam & Company	5.75	Duncan Lawrie	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75
AIB Bank	5.75	Financial & Gen Bank	6.5
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75
Bank of Baroda	5.75	Girobank	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75
Citibank NA	5.75	Lloyds Bank	5.75
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75
The Co-operative Bank	5.75	Midland Bank	5.75
Coutts & Co	5.75	* Mount Banking	6
Credit Lyonnais	5.75	NatWestminster	5.75
Cyprus Popular Bank	5.75	●Rea Brothers	5.75

	%		%
* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution	6		
Royal Bk of Scotland	5.75		
●Smith & Williamson Secs	5.75		
TSB	5.75		
●United Bk of Kuwait	5.75		
Unity Trust Bank Plc	5.75		
Western Trust	5.75		
Whiteaway Laidlaw	5.75		
Yorkshire Bank	5.75		

● Members of London Investment Banking Association
* In administration

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 15 / Sch)

BELGIUM/LUXEMBOURG (Nov 15 / Frs)

DENMARK (Nov 15 / Kr)

FINLAND (Nov 15 / Mks)

FRANCE (Nov 15 / Frs.)

GERMANY (Nov 15 / Dm.)

ITALY (Nov 15 / Lire)

NETHERLANDS (Nov 15 / Fls.)

NORWAY (Nov 15 / Kroner)

SPAIN (Nov 15 / Pts.)

SWEDEN (Nov 15 / Kronor)

SWITZERLAND (Nov 15 / Frs.)

PACIFIC

JAPAN (Nov 15 / Yen)

HONG KONG (Nov 15 / H.K.$)

MALAYSIA (Nov 15 / MYR)

SINGAPORE (Nov 15 / S$)

AUSTRALIA (Nov 15 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Nov 15 / Can $) 4 pm close

MONTREAL (Nov 15 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Nov 15 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, November 15, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	7.4m	385	+3	Toshiba	2.8m	708	+4
Ashikaga Bank	4.2m	690	+6	Sumitomo Chem	2.7m	580	+11
Nisshin Steel	4.0m	500	+7	NKK	2.7m	276	-4
Kawasaki Steel	3.7m	424	+1	Sumitomo Mtl Ind	2.5m	341	-1
Mitsubishi Hvy	3.2m	749	+9	Itochu	2.4m	742	+9

INDICES

	Nov 15	Nov 14	Nov 11	1994 High		1994 Low	
Argentina							
General (29/12/77)	(u)	18777.39	18758.79	25470.40	16/2	17768.98	20/4
Australia							
All Ordinaries(1/1/80)	1941.4	1926.5	1952.0	2340.60	3/2	1926.50	14/11
All Mining(1/1/80)	985.2	974.9	988.6	1138.10	3/2	894.60	5/5
Austria							
Credit Aktien(30/12/84)	385.17	384.87	386.30	460.86	2/2	376.94	25/10
Traded Index(2/1/91)	1026.68	1026.49	1030.80	1222.26	1/2	1011.36	6/6
Belgium							
BEL20 (1/1/91)	1391.64	1387.31	(c)	1542.65	9/2	1336.39	7/10
Brazil							
Bovespa (29/12/83)	(u)	49487.0	49520.0	55110.00	13/9	3800.98	3/1
Canada							
Metals Minls♦(1975)	(u)	3949.45	3906.09	4278.02	20/10	3298.06	20/4
Composite♦ (1975)	(u)	4177.20	4170.68	4609.90	23/3	3989.98	24/6
PortfolioSS (4/1/83)	(u)	2020.58	2014.85	2182.69	1/2	1860.48	28/6
Chile							
IPGA Gen (31/12/80)	(u)	5673.9	5597.1	5879.20	19/10	3801.20	4/4
Denmark							
CopenhagenSE(3/1/83)	343.93	341.61	340.00	415.79	2/2	337.19	8/11
Finland							
HEX General(28/12/90)	1922.6	1931.5	1931.7	1972.00	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1299.76	1291.71	(c)	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1954.53	1941.08	(c)	2355.93	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	791.13	785.73	782.36	859.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2253.70	2235.80	2224.40	2485.90	2/5	2116.30	5/10
DAX (30/12/87)‡	2110.75	2089.39	2078.35	2271.11	16/5	1980.59	7/10
Greece							
Athens SE(31/12/80)	818.27	813.91	815.39	1184.56	18/1	804.58	10/11
Hong Kong							
Hang Seng(31/7/64)	9565.56	9378.82	9357.85	12201.09	4/1	8389.44	4/5
India							
BSE Sens.(1979)	4035.49	4020.99	4058.70	4628.57	12/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	(c)	(c)	513.38	612.89	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1804.07	1803.33	1808.36	2082.16	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	643.53	640.13	641.05	817.17	10/5	588.86	10/1
MIB General (4/1/94)	1041.0	1036.0	1037.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19391.68	19261.45	19284.36	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	280.80	278.70	278.50	311.71	13/6	258.22	4/1
Topix (4/1/68)	1528.64	1517.82	1517.57	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2147.11	2111.86	2114.76	2542.55	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	1059.74	1044.31	1029.87	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2486.64	2526.99	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	439.6	437.0	435.1	454.90	31/1	408.30	21/6
CBS All Shr (End 83)	275.8	274.2	273.2	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	2042.63	2054.61	2076.63	2438.64	3/2	1945.51	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1055.80	1050.96	1046.39	1211.10	28/2	980.91	21/6
Philippines							
Manila Comp (2/1/85)	2927.70	2909.40	2926.61	3308.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	2904.2	2902.1	2889.5	3226.60	18/2	2612.80	20/6
Singapore							
SES All-S'pore(2/4/75)	570.06	565.37	563.63	641.61	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2170.0♥	2184.0	2184.0	2534.00	7/9	1749.00	14/2
JSE Indl. (28/9/78)	6808.0♥	6794.0	6801.0	6808.00	15/11	5446.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1125.60	1128.57	1122.57	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	305.24	301.73	299.24	358.31	31/1	288.85	26/10
Sweden							
AffarsvarldsGen (1/2/37)	1505.20	1489.20	1464.30	1603.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1205.04	1201.81	1204.43	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	918.02	917.81	919.53	1093.29	31/1	876.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6381.80	6393.27	6482.68	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1496.85	1477.84	1466.22	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	27006.5	27002.6	26864.2	28883.60	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)$	629.1*	624.5	625.4	649.90	2/11	591.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1354.70	1347.63	1341.71	1540.19	31/1	1285.48	5/10
Euro Top-100 (26/6/90)	1200.29	1192.31	1187.43	1311.01	2/2	1136.48	5/10
JCapeDrgns (31/12/88)	(u)	331.90	331.89	385.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	180.05	179.86	180.24	181.79	26/9	141.85	21/4

** Sat Nov 12: Taiwan Weighted Price (c) ; Korea Comp Ex 1118.23. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEO Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 16 - 2112.21 +21.17

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	1955.0	1963.0	+14.0	1967.0	1949.0	17,207	23,514
Dec	1962.5	1971.5	+14.0	1974.5	1959.0	1,073	25,957
Mar	-	1998.5	+15.5	-	-		6,933

Open interest figures for previous day.

US INDICES

Dow Jones	Nov 14	Nov 11	Nov 10	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3829.73	3801.47	3821.99	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	94.46	94.32	94.63	105.81 (21/1)	94.32 (11/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1482.74	1472.26	1483.44	1862.29 (2/2)	1438.50 (6/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	177.43	176.71	177.50	227.86 (3/1)	175.85 (30/9)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3849.91 (3830.06) Low 3795.07 (3779.83) (Theoretical♦)
Day's high 3833.77 (3821.99) Low 3798.10 (3795.41) (Actual♦)

Standard and Poors	Nov 14	Nov 11	Nov 10	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	466.04	462.35	464.37	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	555.38	550.87	553.03	563.10 (28/10)	510.05 (21/4)	563.10 (28/10/94)	3.62 (21/6/32)
Financial	42.75	42.51	42.61	48.94 (14/6)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	254.84	253.25	254.35	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	448.72	448.04	449.59	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	768.14	762.12	764.38	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Nov 11	Nov 4	Oct 28	Year ago
Dow Jones Ind. Div. Yield	2.78	2.78	2.70	2.71
	Nov 9	Nov 2	Oct 26	Year ago
S & P Ind. Div. yield	2.39	2.38	2.39	2.41
S & P Ind. P/E ratio	20.93	20.95	20.82	28.61

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	467.40	467.40	+0.30	468.00	466.65	63,100	203,899
Mar	469.80	470.70	+0.75	470.90	469.80	1,674	27,015
Jun	-	474.50	-	474.50	473.75	40	3,649

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Am Express	5,551,100	31⅝	[illegible]
Chrysler	3,924,000	[illegible]	[illegible]
Wal-Mart	3,678,000	[illegible]	[illegible]
Telefonos	3,580,500	[illegible]	[illegible]
Gen Motors	2,292,300	[illegible]	[illegible]
Philip Morris	2,224,000	[illegible]	[illegible]
Ford	2,204,200	[illegible]	[illegible]
K Mart	2,174,400	[illegible]	[illegible]
Santa Fe	2,103,900	[illegible]	[illegible]
Praxair	2,087,700	[illegible]	[illegible]

■ TRADING ACTIVITY

● Volume (million)	Nov 14	Nov 11	Nov 10
New York SE	293.390	218.426	280.876
Amex	17.376	16.057	18.870
NASDAQ	338.418	249.742	240.495
NYSE			
Issues Traded	2,904	2,870	2,902
Rises	1,257	819	807
Falls	1,007	1,551	1,336
Unchanged	640	700	759
New Highs	59	18	26
New Lows	210	223	173

† Correction. * Calculated at 15.00 GMT ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close November 15

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅞	12⅛	AAR	0.48	4.0	21	48	12¼	d12⅛	12⅛	-⅛
18⅛	12⅝	A L Labs A	0.18	1.0	40	105	18	17⅝	17¾	-⅛
79⅞	57⅞	AMP x	1.68	2.3	22	2037	74⅝	73¾	74	-⅛
72¾	48⅛	AMR			110	3440	52⅞	51¾	51⅞	+½
5	3⅛	ARX			12	95	3⅞	3¾	3¾	
56⅛	38⅝	ASA	2.00	4.2	31	816	48¼	47⅝	47¾	
32⅝	25⅞	AbbotL	0.76	2.3	17	8161	u33	32¼	32½	-⅛
15¾	11⅞	Abitibi Pr	0.50	3.8	11	579	13⅓	13	13	-⅛
23⅝	17¾	ABM Ind	0.52	2.5	12	35	20⅝	20½	20½	-⅛
18	11⅛	Acptocain			11	279	14⅞	14⅞	14¾	+⅜
31	22	ACE Ltd	0.44	1.9	23	61	23¾	23½	23½	-¼
12½	9⅛	ACM Gvt In x	1.09	12.0	8	639	9¼	d9	9⅛	
10⅛	6⅞	ACM GvOpp x	0.80	11.6		51	7	d6⅞	6⅞	-⅛
10⅝	6¼	ACM Gvt Sp x	0.96	14.5		527	6¾	6½	6⅝	-⅛
12	7⅝	ACM Gvt Se x	1.09	14.1		714	7⅞	7¾	7¾	-⅛
11¾	7⅞	ACM Man x	1.09	14.2		367	7¾	7½	7⅝	+⅛
9¼	8	ACM Managd x	0.72	8.7		169	8¼	8⅓	8¼	
15½	8¾	AcmeClv	0.44	3.7	24	30	12	11⅝	11⅞	+⅛
13⅝	6½	Acme Elect			11	141	12	11½	11½	+¼
28¾	23	Acordia	0.60	2.1	14	22	28⅛	27⅞	28⅛	+⅜
13¾	5¾	Actava	0.36	3.8	2	170	9⅝	9⅜	9⅜	-⅜
18⅞	11¾	Acuson			27	1581	16⅞	16⅝	16⅞	+⅛
18⅞	16½	Adams Expr x	0.68	4.2	0	231	16¼	d15⅞	16¼	-1/16
64	46½	Ad Micro	3.00	5.5		19	54¾	53⅞	54¼	+¾
31¾	16¾	AdaMic	3.00	12.1	8	6810	25½	24½	24¾	+¼
6⅞	5	Advest Grp	0.16	3.0	15	61	5½	5⅜	5⅜	+⅛

[illegible]

Continued on next page

4 pm close November 15

NYSE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		Continued from previous page								
49⅞	31¼	Salin Man	1.40	4.2	6	4478	34	33¼	33⅝	-⅛
13⅞	11⅞	Salomon Br	0.32	2.0	26	605	12⅝	12⅛	12⅝	-⅛
52¾	37	Salomn	0.64	1.7	22	4006	39⅞	37⅞	38⅛	+⅛
25	17½	SnDgGE	1.52	7.8	10	645	19½	19⅛	19½	-¼
10	7½	SantaFeSh x	0.16	1.3	10	301	9	8⅞	9	+⅛
17⅞	13½	SFeGd			41	11755	14⅛	13⅞	14⅛	+⅛
33¼	31⅝	SFePPipe	2.80	8.8	6	320	32¼	32	32	-½
28¼	12⅛	SanFuP x	0.10	0.6	13	19576	16⅝	16⅛	16⅛	+⅛
26	19⅜	SaraLee	0.68	2.7	54	9444	25⅝	24⅞	25	-½
50⅛	41¼	Scana Corp	2.82	6.8	12	260	41⅝	41⅛	41½	
20½	12½	Scecrp	1.00	7.3	8	4026	13⅞	13⅝	13¾	
44⅝	31¾	ScheneRP			27	315	41⅞	41½	41½	+⅛
74½	54½	SchrPl	2.04	2.8	15	14154	u75½	73¾	73⅞	-⅛
63	50¾	Schlmb	1.20	2.1	26	3592	56⅝	55⅞	56	-⅛
37	23¾	SchwabCh	0.28	0.8	15	4241	34	32⅞	33⅞	+1
10¾	6½	Schwitzr			8	300	8¾	8½	8¾	-⅛
22⅝	12¾	SciAtl	0.06	0.3	40	1605	21⅞	21¼	21½	+⅛
17½	13	Scotman	0.10	0.6	12	244	u18⅛	17¼	17¾	-¼
67⅞	37¼	ScottP	0.80	1.2	20	6646	67⅞	65⅞	66⅞	+⅞
28⅝	18⅝	ScudderNAsF	0.21	0.9		127	23¼	23⅛	23⅛	-⅛
12⅝	9⅛	ScudderNEuF	0.16	1.7		224	9½	9⅜	9½	+⅛
18¼	13½	SeaCnS	0.70	5.0	6	2	14⅛	14	14	-⅛
16½	14¼	SeaCt 4625	1.46	10.1		2	14½	14⅛	14½	
32⅝	26¼	Seagrm	0.60	2.1	22	4024	29	28⅝	28¾	+⅛
29¼	21⅞	Seagull En			40	144	23¾	23⅛	23¼	+¼
36¼	26⅝	Sealed Air			20	101	35½	34⅞	35¼	+½
55⅛	42⅛	SearsR	1.60	3.2	15	8927	50⅜	50	50¼	-¼
13¾	9¾	Seligm Sel	0.84	8.4		342	10⅛	d9¾	10	+⅛

1994 High	1994 Low	Stock	Div	Yld %	P/E
16⅝	10	Talley Pf	1.00	6.4	
44½	34⅛	Tmbrds	1.78	4.3	17
19⅛	10½	Tandem			11
49⅞	30¼	Tandy	0.60	1.4	16
12¼	7⅞	Tmpls Mun x	0.71	8.5	
4	2	TCCInd			
22⅝	18⅜	Teco Energ	1.01	5.3	13
40½	23⅝	Tktrnx	0.60	1.6	16
29⅝	24⅛	TeleDa			3
26⅝	14⅛	Teldyn	0.80	4.5	104
40½	34⅝	TeleEspSA	1.68	4.2	7
76	50⅛	Telmex x	1.51	2.9	9
56¾	43⅛	Tmplnl	1.08	2.3	29
30⅝	18½	TempltEmMk	0.10	0.4	
8⅝	6⅛	TempltGlob	0.60	9.2	
8	6⅛	TempltGlFd x	0.60	9.2	
58¾	41⅝	Tnneco	1.60	3.9	12
30	25⅝	Teppco Pts	2.40	8.0	8
33⅞	20⅛	Teradyne			19
9⅞	4¼	Terex	0.08	0.8	1
13½	5⅞	Terra Inds	0.08	0.8	18
12⅜	5¼	Tesoro			7
68⅛	58⅛	Texaco x	3.20	5.2	18
39¼	29⅝	Texas Ind	0.20	0.6	11
83½	61	Tinst	1.00	1.3	11
21⅞	18¼	Texas Pac	0.40	1.8	16
43⅛	29⅝	TxUtil	3.08	9.8	13
4⅜	2½	Texfi Inds	1.10	40.0	1
60⅝	47¼	Textrn	1.40	2.8	10
4⅜	4	Thackeray			

NASDAQ NATIONAL MARKET

4 pm close November 15

AMEX COMPOSITE PRICES

4 pm close November 15

FINANCIAL TIMES Wednesday November 16 1994

AMERICA

Dow volatile in wake of rate increase

Wall Street

US stocks swung higher and then lower yesterday after the Federal Reserve said it was raising the federal funds and discount rates by 0.75 of a percentage point.

The Dow Jones Industrial Average, which had been up about 12 points before the news, initially surged to a 25-point gain. But the advance quickly stalled and lost 20 points before steadying in midafternoon.

Just before 3pm, the Dow was down some 6 points at 3,825 while the more-broadly traded Standard & Poor's 500 was down some 1.50 at around 464.

The discount rate was raised to 4.75 per cent, effective immediately. The federal funds rate that banks charge each other for money was raised to 5.5 per cent.

It is the third rise this year in the discount rate and the sixth increase for the federal funds rate.

Traders said that the initial reaction showed the market viewed the aggressive Fed move as eliminating the possibility of further near-term rate hikes. Analysts said that the Fed move meant the economy would be slowing, which would hurt corporate profits going forward.

Before the Fed moves, share prices were mixed among the banks which tend to be particularly sensitive to interest rate changes. Gainers included Citicorp up $⅜ at $46⅛, Chemical Banking $⅛ at $36½, Chase Manhattan $½ at $36⅛ and J.P. Morgan $⅜ at $60⅛. Declining were NationsBank, down $⅛ at $47⅞, and BankAmerica, $⅛ lower at $42½.

Microsoft, the software-maker, saw its shares increase $⅞ to $64⅞ on news that it would launch a new, on-line service to be available in 35 countries. Digital Equipment was up $1⅛ at $33¾ on news that it would manage the client/server network for Microsoft. ADRs of British Telecommunications, which will help carry the new service traded up $⅝ at $62.

Shares in Apple Computer gained $⅝ at $42⅞ on news that it had shipped the most computers in the US during the third quarter.

Whirlpool increased $1⅞ at $53¼ after announcing it would streamline operations by cutting 3,200 jobs in its European and North American operations and closing two North American plants.

Two retailers gained on reports of strong third quarter earnings. Home Depot rose $⅜ at $47⅝ and J.C. Penney $⅜ at $47½. Shares in Dayton Hudson fell $2½ at $81½, in spite of a strong earnings report.

Canada

Toronto held on to its gains at midday, expecting an announcement of a 50 basis-point rise in US short-term interest rates later in the day by the US Federal Open Market Committee.

The TSE 300 was 13.1 higher at 4,190.3 by noon in heavy volume of 32.8m shares. Declines led advances by 338 to 234, with 323 issues unchanged.

Newbridge Networks rose C$2.0 to C$46½ in domestic trading after Merrill Lynch upgraded its recommendation to near-term above average from neutral. In New York trading, Newbridge rose $1⅛ to $34⅛.

Suncor picked up C$⅛ to C$34¼ after the group said it planned to spend C$250m to expand production from its Alberta oil sands operations by 20 per cent by 1998.

Teleglobe held steady at C$18 after announcing a joint venture with TRW to build and operate a worldwide satellite-based communication system.

Petro-Canada remained the most active stock, trading at C$11⅞, in volume of 2.5m shares after one large block trade.

Mexico falls 1.5%

Mexican stocks were hurt by political worries in connection with the investigation surrounding the assassination of Mr José Francisco Ruiz Massieu, secretary general of the ruling Institutional Revolutionary Party (PRI), in September.

At midsession the IPC index was down 36.53 or 1.5 per cent at 2,450.11. Turnover had reached 23.8m pesos on 1.9m shares traded.

The market turned negative after the man leading the investigation, Mr Mario Ruiz Massieu, brother of the murdered official, accused two senior PRI officials of trying to hinder his inquiry.

However, investors were also anxiously awaiting the announcement from the US Federal Reserve on whether interest rates will be raised, fearing that this could lead to a repatriation of US funds.

S Africa ends mildly firmer

Shares in Johannesburg registered mild gains, with trading seen to improve late in the day after a lethargic morning session. Brokers remarked that turnover had been slow before rising towards the close, although individual share price movements had been restricted by the Federal Reserve's FOMC meeting.

One of the features was a rise in the price of bullion, which lifted the golds index a modest 4 points to 2,168, a gain matched by the overall index, which closed at 5,865 after trading in a narrow 10-point range throughout the session. Industrials showed the best performance, advancing 14 to 6,808.

Among the most heavily traded stocks yesterday, De Beers recovered from a softer start to finish unchanged at R99.75 and Anglos was 50 cents better at R243.50.

Elsewhere, Gencor put on 5 cents at R15.20, Minorco relinquished 50 cents to R107.50 and Richemont softened 25 cents to R38.50.

C.G. Smith, the industrial group, lost 50 cents at R18.25 in spite of the release of year-end figures showing earnings up by 13 per cent to 106 cents.

EUROPE

Most bourses higher anticipating US rate rise

Most bourses rose on the prospect of a US rate rise after Continental market hours. Zurich begged to differ, *writes Our Markets Staff.*

FRANKFURT appeared to extend itself ahead of today's holiday, the Dax index closing the session 21.46 higher at 2,110.75 and creeping up further to 2,112.21 by the end of the post bourse. But, said Ms Barbara Altmann at B Metzler in Frankfurt, the market was more nervous than it looked.

Turnover picked up to DM6.6bn, from DM4.4bn on Monday. The big gains were in banks, on an improving bond market and on the feeling that the sector had seen the worst of this year's bad news; and in carmakers, reflecting the limited recovery in the dollar and a degree of short-covering.

Schering responded to good prospects for its BetaSeron multiple sclerosis drug, rising DM28 to DM995 by the end of the day; and Veba continued to respond to last week's progress report with a gain of DM7.50 at DM532.50.

Underperformers included Volkswagen, relative to other carmakers, with a gain of DM3 at DM459 after recent underperformance; and Siemens, the only Dax stock to lose ground on the day, with a decline of DM1.70 to DM622.50.

PARIS saw turnover increase to a more satisfactory FFr3.4bn as the CAC-40 index improved 13.45 to 1,964.53.

Eurotunnel topped the list of most active stocks, with some 7m shares traded, and put on FFr1.35 or 6 per cent at FFr24.00. Brokers reported that most of the buying seemed to come from the domestic retail side with no substantial business from institutions.

In contrast, Euro Disney was marked down 35 centimes or 3.6 per cent to FFr9.30 in strong volume of 1.6m shares as worries surfaced that it might be replaced as a constituent of the CAC-40 index by Renault.

Among automotive stocks, Peugeot shrugged off domestic reports of a decline in quality control to close with a gain of FFr1 at FFr828. Michelin added 80 centimes at FFr216.60.

Thomson-CSF rose 90 centimes to FFr154.90 as SGS-Thomson, the French-Italian semiconductor manufacturer, said that it would list 21m shares in Paris and New York in an initial public offering. Thomson-CSF indirectly holds 23.81 per cent of SGS-Thomson and will see its stake fall to around 20 per cent following the IPO, which will run from November 21 to December 8.

LVMH advanced FFr15 to FFr863 following nine month sales figures released late on Monday.

ZURICH was unable to make much progress as interest rate sensitive banks and insurers came under pressure, although Ciba's confirmation that it was seeking a minority stake in Chiron, the US biotechnology company, provided a focus.

The SMI index picked up late in the day to finish 1.0 higher at 2,591.9 as some investors reflected that Sweden's vote in favour of EU membership, and expectations that Norway would follow suit on November 28, had turned a spotlight on Switzerland's increasing isolation within Europe.

Ciba added SFr7 to SFr753 with some analysts arguing against a deal with Chiron, unless the Swiss group was assured of ultimate majority control. However, Mrs Birgit Kulhoff at UBS, who saw substantial benefits for Ciba from a link, noted that the companies had different corporate cultures and said it was important for Chiron's future success that it retained its own identity.

Among the financials, CS Holding lost SFr12 to SFr558 and Swiss Re, which has risen by 40 per cent over the last two months, gave up SFr7 to SFr705 on profit-taking, with heavy selling by one private bank reported.

Holderbank, on the upward path since its strong profits forecast 11 days ago, was a beneficiary of switching from the financials. The shares rose SFr14 to SFr1,049.

AMSTERDAM made ground, a number of solid gains coming to notice as the AEX index rose 3.29 to 412.21.

KPN, the telecommunications group, rose to a new year's high, adding 50 cents to Fl 55.80. The newly privatised group has benefited from broker's upgrades recently, and is seen to be one of the most attractively priced telecoms stocks in Europe.

Futher strong support was seen for KNP BT, the paper and packaging company, up 70 cents to Fl 51.00 on expectations of good third quarter results, due on Friday.

Hoare Govett was confident that the results would be positive, with operating profits expected to show a recovery in paper and graphic systems, but Carter slipped 6 cents to Fl 12.20 respectively to Fl 201.20 and Fl 139.30.

(sic — see below)

MILAN's attention turned back to politics with today's confidence vote on pension reform, and news that the unions had called a general strike for December 2 pulling prices back from early highs. The Comit index was 3.40 higher at 643.53 but the late weakness was reflected in an 11-point fall in the Mibtel index, to 10,253.

Against the trend, RAS, the insurer, picked up L726 to L19,411 with some large buy orders noted ahead of the launch of its L3,300bn capital increase tomorrow.

MADRID said flatly that a 50 basis points Fed rate rise would justify yesterday's 3.51, or 1.2 per cent gain in the general index to 305.24; less than that, and the market would be vulnerable; more, and it might rise further. Block trades bloated turnover to Pta57bn.

COPENHAGEN was higher for the fifth consecutive day with the advance supported by a firm bond market. The KFX index rose 1.37 to 96.24.

Rising bond prices brought buyers back into bank stocks, which fell heavily last week.

DUBLIN was depressed by the Irish political crisis following the government's handling of a child sex abuse case, the ISEQ overall index rose only 0.74 to 1,804.07.

WARSAW duly dropped to a new 1994 low, its sixth successive decline taking the Wig index down 355.1, or 4.9 per cent to 6,880.8. The market was said to be flooded with sell offers, and turnover rose 42.4 per cent to 576bn zlotys.

Written and edited by William Cochrane, John Pitt and Michael Morgan.

FT-SE Actuaries Share Indices									
Nov 15								THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	
FT-SE Eurotrack 100	1332.54	1353.21	1353.63	1353.84	1354.51	1355.22	1354.16	1354.70	
FT-SE Eurotrack 200	1412.66	1414.73	1414.37	1414.28	1415.76	1417.27	1415.38	1415.59	
	Nov 14	Nov 11	Nov 10	Nov 9	Nov 8				
FT-SE Eurotrack 100	1347.63	1341.71	1345.52	1345.14	1324.29				
FT-SE Eurotrack 200	1403.12	1398.52	1405.68	1408.36	1384.92				

Base 1000 (26/10/90) High/day: 100 - 1356.57; 200 - 1417.71 Low/day: 100 - 1352.41 200 - 1412.67 † Partial

ASIA PACIFIC

Second section outperforms as Nikkei index recovers

Tokyo

Bargain hunting and arbitrage buying supported share prices and the Nikkei 225 average gained ground in low volume, *writes Emiko Terazono in Tokyo.*

The index closed 130.23 up at 19,391.68 after fluctuating in a narrow range between 19,432.59 and 19,314.76. Brokerage dealers and domestic institutions purchased shares, but foreign investors turned net sellers.

Sentiment stayed subdued, with many investors remaining cautious ahead of the US Federal Open Market Committee meeting, and volume eased from 229m shares to 219m.

The Topix index of all first section stocks firmed 10.82 to 1,523.64 and the Nikkei 300 moved forward 2.10 to 280.80, while rises outnumbered falls by 738 to 219, with 205 issues unchanged. But in London the ISE/Nikkei 50 index eased 1.06 to 1,259.44.

Traders said speculative investors, discouraged by the low volatility in the first section, explored the second section and the over-the-counter market. A branch manager at Nikko Securities said he would recommend that clients focus on small-capitalisation stocks on the second section and in the OTC market backed by strong earnings growth. The second section index climbed 35.25 or 1.7 per cent to 2,147.11.

Privatisation issues, which had been battered by recent profit-taking, staged a rally. Reports that the government had abandoned the plan to list West Japan Railways in the current fiscal year cheered market participants.

Japan Tobacco recouped Y30,000 at Y991,000 on buying by corporate investors, breaking out after six straight sessions of decline. Nippon Telegraph and Telephone gained Y12,000 at Y876,000.

Brokers, which have been hurt by the recent drop in the stock market, advanced. Nomura Securities rose Y60 to Y1,930 and Nikko Securities Y30 to Y1,030.

Steels and shipbuilders were actively traded but finished mixed. Nippon Steel, the most active issue of the day, moved up Y3 to Y385 and Mitsubishi Heavy Industries added Y9 at Y749. NKK dipped Y4 to Y276.

High-technology stocks were firm. NEC improved Y20 to Y1,180 and Hitachi Y4 to Y974. Sony rose Y30 to Y5,780, but Matsushita Electric Industrial receded Y10 to Y1,530 in spite of strong consolidated earnings growth.

In Osaka, the OSE average put on 143.89 at 21,437.47 in volume of 58m shares. Aoyama Trading, the men's suits maker, rose Y120 to Y2,420.

Japan

Tokyo SE index

Source: Datastream

Roundup

Senior markets, in particular, were inspired by Wall Street's overnight gains and prospects following an expected rise in US interest rates. Jakarta, hosting the APEC summit, was closed for the second day in succession before reopening today.

HONG KONG rose 2 per cent, the Hang Seng index climbing 186.74 to 9,565.66 and turnover more than doubling to HK$3.91bn from Monday's four-month low of HK$1.78bn.

However, the view remained that the US situation offered trading, rather than investment, potential. Concerns over US inflation data and rates trends over the longer term were expected to linger after the US credit tightening move widely expected yesterday.

Recently weak banks and property shares attracted the most attention, with HSBC, the most active stock, appreciating HK$1.75 to HK$91.25, Sun Hung Kai Properties HK$1 to HK$58.25 and Henderson Land HK$1.50 to HK$49.90.

KUALA LUMPUR reported strong retail and institutional buying as the KLSE index rose 25.43 or 2.4 per cent to 1,069.74, its largest single-day gain in more than three months.

Volume swelled to 299m shares, its highest in four weeks, from Monday's 132m. Brokers said the market had factored in a 50 basis-point increase in US interest rates, but that a larger rise could put some pressure on the market.

Meanwhile, Baring Securities market strategist Mr Alan Butler-Henderson said in his Tiger Talk monthly that the Malaysian market would have the "best bounce" after any US interest rate increase.

BANGKOK surged as the market finally discounted expectations of a rise in US interest rates, and the SET index closed 19.01 better at 1,496.55 in heavy turnover of Bt8.69bn.

Buying interest emerged initially in the finance sector, and spilled over to some property issues.

SINGAPORE ended off intraday highs, the Straits Times Industrial index finally standing 14.24 up at 2,341.18.

Foreign held bank shares were firm. Overseas Union Bank foreign gaining 25 cents at S$8.75, United Overseas Bank foreign 20 cents at S$16.30 and Overseas Chinese Bank foreign 50 cents at S$15.80.

WELLINGTON was led down by forestry stocks Fletcher Challenge and Carter Holt Harvey as the NZSE-40 index retreated 11.98 to 2,042.63. Fletcher finished 14 cents off at NZ$4.12 after some forecasters downgraded their expectations, and Carter slipped 6 cents to NZ$3.78 in sympathy.

Workers at Fletcher Challenge Canada's three British Columbia pulp and paper mills voted on Monday in favour of strike action over working conditions, which would not have helped the stock's tone, said brokers.

SYDNEY's All Ordinaries index rallied 15.0 to 1,941.4, with brokers noting bargain hunting in resource stocks following the heavy selling in this sector in the previous few days.

Among the day's best performers, BHP moved ahead 48 cents to A$19.10, CRA 18 cents to A$17.84 and MIM 5 cents to A$2.54.

In the media section, News Corp was down 4 cents at A$5.34 after losing an early gain, but Fairfax advanced 12 cents to A$2.72.

KARACHI sagged at the close as market sentiment remained depressed by fears of ethnic violence in Karachi, political uncertainty and shortage of funds. The KSE 100 share index fell 18.67 or 0.9 per cent to 2,178.91.

SHANGHAI's A share index declined sharply after Beijing denied reports that it planned to allow pension funds to be invested in the domestic market. The index dropped 29.8 or 3.9 per cent to a day's low of 724.55.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 14 1994								FRIDAY NOVEMBER 11 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	165.32	-1.3	154.66	102.86	132.82	146.35	-1.2	3.90	167.63	155.28	103.25	133.09	148.07	189.15	149.36	154.49
Austria (18)	177.64	-1.8	166.18	110.52	142.71	142.75	-0.7	1.13	180.81	167.59	111.43	143.63	143.72	198.89	167.46	171.60
Belgium (35)	167.27	-0.9	156.49	104.07	134.38	131.06	0.1	4.21	168.81	156.47	104.04	134.10	130.93	177.04	151.07	151.07
Brazil (28)	185.75	0.0	173.77	115.57	149.23	285.84	-0.2	0.72	185.77	172.19	114.49	147.57	286.37	-	-	-
Canada (103)	131.82	0.3	123.32	82.01	105.90	129.51	0.2	2.63	131.47	121.86	81.02	104.44	129.30	145.31	120.54	135.54
Denmark (33)	247.10	-0.7	231.17	153.74	198.52	202.88	0.4	1.46	248.82	230.63	153.35	197.86	202.03	275.79	230.27	239.01
Finland (24)	194.86	0.1	182.29	121.23	156.54	190.43	0.3	0.74	194.61	180.39	119.94	154.60	189.89	201.41	116.85	121.07
France (101)	169.39	-1.3	158.46	105.38	136.08	141.23	-0.2	3.07	171.62	159.08	105.77	136.34	141.49	185.37	159.34	162.25
Germany (58)	142.75	-0.6	133.54	88.81	114.68	114.68	0.5	1.81	143.65	133.16	88.54	114.12	114.12	150.40	128.37	130.05
Hong Kong (56)	380.96	0.3	356.40	237.02	306.06	378.02	0.3	3.17	379.97	352.20	234.18	301.86	377.01	506.56	341.29	392.06
Ireland (14)	201.17	-1.5	188.20	125.16	161.62	182.21	-0.4	3.51	204.15	189.23	125.82	162.18	182.95	216.60	172.05	176.45
Italy (59)	77.99	-0.7	72.96	48.52	62.66	92.40	0.7	1.70	78.51	72.78	48.39	62.37	91.81	97.78	57.88	63.20
Japan (468)	154.89	-0.9	144.90	96.37	124.44	96.37	0.1	0.80	156.25	144.83	96.30	124.12	96.30	170.10	124.54	148.92
Malaysia (97)	518.79	2.1	485.34	322.77	416.80	511.88	2.3	1.64	508.09	470.90	313.11	403.58	500.30	621.63	430.71	483.84
Mexico (18)	2026.70	-1.9	1895.99	1260.92	1628.21	7641.48	-1.6	1.34	2064.95	1914.02	1272.65	1640.37	7764.28	2647.08	1698.28	1818.30
Netherland (19)	213.80	-0.7	200.01	133.02	171.77	169.10	0.5	3.42	215.25	199.52	132.66	171.00	168.34	223.30	187.01	190.23
New Zealand (14)	74.76	-1.0	69.94	46.51	60.06	64.02	-0.9	4.54	75.55	70.02	46.56	60.01	64.61	77.59	59.22	59.83
Norway (23)	195.26	-0.8	182.67	121.48	156.87	178.97	0.3	1.85	196.83	182.46	121.32	156.37	178.46	211.74	165.52	178.02
Singapore (44)	390.14	0.2	364.98	242.73	313.44	265.17	0.5	1.59	389.48	361.01	240.04	309.40	263.80	401.38	294.66	315.72
South Africa (59)	333.48	-0.8	311.98	207.48	267.91	300.30	0.0	2.13	335.61	311.08	206.84	266.60	300.39	342.00	205.55	222.41
Spain (36)	141.67	-0.2	132.54	88.14	113.82	137.97	0.9	4.23	142.01	131.63	87.52	112.81	136.79	155.79	128.88	137.44
Sweden (36)	240.68	1.9	225.16	149.74	193.36	259.54	2.2	1.54	236.31	219.04	145.64	187.73	253.98	242.98	175.83	197.76
Switzerland (47)	163.65	-1.5	153.10	101.82	131.47	131.71	-0.2	1.84	166.15	154.01	102.40	131.99	131.93	178.56	146.04	146.37
Thailand (46)	174.09	0.5	162.86	108.31	139.86	168.95	0.7	1.98	173.26	160.60	106.78	137.64	167.84	-	-	-
United Kingdom (204)	199.42	-0.3	186.55	124.07	160.21	186.65	0.6	4.11	200.11	185.49	123.33	158.97	185.49	214.98	181.11	186.13
USA (515)	190.55	0.8	178.26	118.55	153.09	190.55	0.8	2.87	189.05	175.24	116.52	150.18	189.05	196.04	178.95	189.67
Americas (664)	178.18	0.7	166.69	110.86	143.15	148.06	0.7	2.80	176.94	164.01	109.05	140.56	147.03	-	-	-
Europe (707)	171.75	-0.6	160.67	106.86	137.98	151.62	0.4	3.09	172.80	160.17	106.50	137.27	150.97	178.58	154.79	158.95
Nordic (116)	229.21	0.8	214.42	142.60	184.14	211.56	1.4	1.40	227.31	210.69	140.09	180.57	208.74	233.91	173.19	187.99
Pacific Basin (793)	164.33	-0.7	153.73	102.24	132.02	106.92	0.1	1.14	165.48	153.39	101.99	131.46	106.80	176.86	134.79	157.66
Euro-Pacific (1500)	167.34	-0.7	156.55	104.11	134.44	124.56	0.2	1.98	168.46	156.14	103.82	133.82	124.25	176.14	143.88	157.25
North America (618)	186.91	0.8	174.85	116.29	150.16	186.37	0.8	2.86	185.48	171.92	114.31	147.34	184.95	192.73	175.67	186.31
Europe Ex. UK (503)	153.24	-0.8	143.35	95.34	123.11	130.98	0.3	2.48	154.42	143.13	95.17	122.67	130.55	158.12	135.94	138.19
Pacific Ex. Japan (325)	255.47	0.2	238.99	158.94	205.24	226.08	0.3	2.87	255.03	236.40	157.19	202.60	225.40	296.21	232.54	241.90
World Ex. US (1708)	169.28	-0.7	158.37	105.32	136.00	128.30	0.2	1.98	170.38	157.93	105.01	135.35	128.03	176.65	145.58	158.28
World Ex. UK (2019)	172.97	-0.1	161.81	107.61	138.96	143.47	0.4	2.10	173.17	160.52	106.73	137.57	142.90	178.59	155.96	165.98
World Ex. Japan (1755)	187.97	0.1	175.85	116.95	151.01	177.71	0.6	2.90	187.69	173.97	115.67	149.10	176.73	195.20	176.34	178.57
The World Index (2223)	175.30	-0.1	163.99	109.08	140.83	147.35	0.4	2.30	175.55	162.72	108.19	139.45	146.74	180.60	158.85	167.75

Latest prices were unavailable for this edition.